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TOWARDS A THEORY OF CLERGY  
EXECUTIVE COMPENSATION

A Dissertation  
Presented to  
The Academic Faculty

By

Nicholas Lee Bertram Harvey

In Partial Fulfillment  
Of the Requirements for the Degree  
Doctor of Philosophy in Public Policy

Georgia State University and Georgia Institute of Technology

May 2011

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TOWARDS A THEORY OF CLERGY  
EXECUTIVE COMPENSATION

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To Dana Michelle and Nicholas James Harvey

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## SUMMARY

Previous research in organizational theory, labor market economics, and nonprofit studies are applied to churches and their clergy leadership in advancing a theory of clergy executive compensation. The present study, characterizes churches as mission-maximizing nonprofits operating in a religious market. The data for this study come from the end of year reports from approximately 800 local churches of the North Georgia Annual Conference of the United Methodist Church for the years 2007-2008 and a survey administered in order to glean the personal characteristics of the clergy. The investigation employs a clergy compensation framework and finds that clergy salaries are influenced in part by personal characteristics, human capital, organizational elements, labor market factors, and clergy performance.

The degree to which clergy, as agents, achieve the aims of their principal, the church and/or denomination, is the main avenue through which we can understand what factors influence clergy salaries. Denominational churches achieve their goals through a hierarchical relationship suggestive of a nonprofit franchise. The franchise / hierarchical arrangement places clergy in a "dual agency" tension. Clergy affiliated with hierarchical denominations operate as dual agents because they serve two principals, the congregation, and the denomination. If clergy are in autonomous churches, the local church is the sole principal.

Ordination stratifies the labor market differentiating clergy from their non-ordained colleagues. Further, ordination functions as a signal of commitment to the denomination and legitimacy to the laity resulting in financial benefit to ministers.

Clergy are also rewarded on the basis of managerial scope, where they receive higher wages as compensation for their assumed managerial acumen and responsibility.

This study also recognizes that clergy operate in a labor market. Churches without a hierarchy have a labor market that is comparatively more competitive. The present research suggests that within the more autonomous denominations there may also be market stratification on the basis of some attribute that differentiates clergy from one another and signals commitment.

The results regarding the role of credentialing in stratified labor markets have implications for policy. The present research adds to the nonprofit executive compensation literature by suggesting that denominational churches are analogous to nonprofit franchises and by empirically testing for "dual agency", labor market stratification, and managerial scope.

## **CHAPTER ONE**

### **INTRODUCTION**

The church is a unique institution because few organizations claim divine origins. The language used to describe the church emphasizes the distinction. When we use words like holy, sacred, and spiritual to describe the church, we give the sense that the church is otherworldly and beyond our comprehension. Although the church has several distinguishing characteristics, churches and clergy are in many ways similar to organizations and workers outside of the religious context.

For example, religious organizations function in a market where demanders and suppliers of religious goods and services meet for exchange. There exists a labor market for clergy where available clergy find employment and churches seek employable clergy at a determined wage. Like other organizations, churches seek to attain a specific mission within the context of organizational constraints. Ministers possess individual characteristics and motivation that serve them in their work. The purpose of the present study is to advance a theory of clergy executive compensation based on nonprofit research, organizational theory, and labor market economics.

Executive compensation for clergy gained public attention recently when some religious nonprofit leaders were investigated at the urging of Sen. Charles Grassley and the Senate Finance Committee (Sataline, 2007). The purpose of the inquiry was to ascertain whether the ministries participated in for-profit activities where they were avoiding tax payments and to determine if the ministers benefited personally from the ministry. The interest in ministerial salaries parallels the scrutiny of pay levels for other nonprofit executives. Although much of the scholarship has been in the proprietary

sector, the nonprofit sector demonstrates an interest in the subject of executive salaries as illustrated by The Chronicle of Philanthropy's annual listing of the salaries of nonprofit leaders.

Questions regarding nonprofit compensation practices became salient and garnered particular scrutiny because of several factors. Leete (2006) observes a carry-over effect from the critique of for-profit sector salaries as for-profit executive compensation increased. For-profit executive compensation practices shifted toward linking the manager's salary with organizational fiscal performance in an effort to address the classical agency problem and align the interests of shareholders and leaders. Similarly, according to the annual survey of the Chronicle of Philanthropy (Barton and Gose, 2008), nonprofit executive salaries at the largest nonprofits have increased as well over time. Accordingly, nonprofit stakeholders sought ways to link the wages of nonprofit managers to mission-related outcomes. The prevailing challenge for nonprofits seeking to link pay to performance was defining appropriate measures of performance that were quantifiable.

There were also several scandals involving nonprofit leaders and their salaries that raised questions of excessive executive compensation (Leete, 2006). The board of regents of the Smithsonian Institution admitted that they had fallen asleep at the wheel regarding the oversight of the secretary (executive director) who used the nonprofit's funds for chauffeurs and private planes (Grimaldi, 2007; Independent Review Committee Smithsonian Institution, 2007). Intensifying the debate on nonprofit executive compensation are recent efforts by Congress, state attorneys general, and several private organizations to improve the accountability of charities.

The determinants of clergy executive compensation is the research question undertaken by this investigation. By analyzing a unique data set of over 700 churches and their clergy leaders, this study intends to test several hypotheses about the determinants of clergy executive compensation. The religious marketplace provides the conceptual context for the present investigation.

### **1.1 The Religious Marketplace**

Religious markets, the arenas for exchange of religious goods and services, are comprised of religious producers and religious consumers. We will assume that religious producers seek to optimize some measure of organizational success like members or resources (e.g. financial, political, or social capital) while competing with each other. Religious consumers seek to fulfill their varied religious needs. The behaviors of religious leaders and churches are modeled as rational responses to opportunities and constraints found within the religious market (Iannaccone and Berman, 2006). The successful religious producer is the one that "competes well" and provides an attractive religious product in exchange for "time, money, and commitment" (Roof, 1999).

Finke and Starke (2005) chronicle the religious history and the growth of denominations in the United States in terms of religious markets. One of the characteristics of the religious environment in America is intense competition since there is no established national religion (Finke and Starke, 2005). The lack of a state religion serves to explain the pluralistic nature of the religious market place in America from its inception. Finke and Starke (2005) use the term "entrepreneurial religion" to describe churches and clergy that engage in innovative activities to reach people. However, not all churches and clergy possess entrepreneurial characteristics which contribute to achieving



objectives related to the mission. The authors illustrate that there are distinct characteristics of churches and clergy that are “winners and losers in a free market religious environment” by applying a church-sect typology, an organizational development model, developed by Max Weber and Ernst Troeltsch (Niebuhr, 1929).

Churches normally do not begin as institutional structures but more as faith movements on the fringes of religion. Sects are those groups that are in high tension with the social-cultural environment. Persons drawn to sects seek a faith that is strict and otherworldly while those in churches do not want such features. According to Niebuhr (1929), church congregants prefer a more accommodating faith that allows members to operate in a relationship of low-tension with the environment. Sects bear the character of voluntary associations while churches are established institutions.

Niebuhr (1929) asserts that the sectarian type of organization remains present for only one generation. Successful sects transform into established churches as children are born and the sect takes on the role of a socializing institution training the second generation in the discipline and norms of the tradition. The former sect begins to accommodate to societal norms in its ethical stance decreasing the environmental cultural tension. As the former sect becomes a church, some members may perceive “mission drift” resulting in a schism within the church body. The faction that secedes births a new sect and the process begins again.

In the religious marketplace, sects and churches compete for religious market share. Finke and Starke (2005) describe how established churches employed “cartel agreements” which served as barriers to entry to sects. For example, in 1801 the Presbyterians and the Congregationalists created a Plan of Union for western expansion

where they had “noncompeting missionary efforts” for access to exclusive markets. However, the upstart sects employed vigorous marketing techniques (e.g. revivals) to draw consumers away from the churches. As religious groups supplied innovative religious products, they experienced success in the religious market (Roof, 1999).

The success of the sects was attributed to their ability to meet the differentiated religious preferences of the American frontier. The winners, as described by Finke and Starke, were the Methodists and the Baptists and the losers were the Presbyterians and the Congregationalists. According to the researchers, the Methodists and the Baptists in the 1800’s had an organizational structure that was suited for growth and accumulation of market share. The Methodist and Baptist clergy were not from the educated classes. Their leadership was “home grown.”

The educational requirement of the Presbyterians and the Congregationalists created a labor supply problem. Well-educated clergy have higher costs associated with their employment and their deployment. The low overhead costs associated with establishing churches gave the Methodists and the Baptists a distinct advantage. In addition, having local preachers decreased the social distance between parson and parishioner. Members felt they could relate better to a minister who was one of their own.

Consistent with the sect-church model, the successful Methodist sect became the Methodist Church. As a result, the denomination began to experience a membership decline and a loss of market share, as the local democratic form of local preachers gave way to a centralized clerical hierarchy with an increasingly affluent membership and professionalized clergy (Finke and Starke, 2005). The membership decline of mainline

protestant denominations since the 1960's is well documented (McKinney and Finke, 2002).

The United Methodist Church experienced a decline of 7.0% during the 1980's alone from 9,519,407 members to 8,853,455 members (General Commission on Archives and History, 2009). The decline continued into the 21st century as the 2008 membership was reported as 7,853,987 (National Council of Churches, 2010). Nonetheless, during the 1990's clergy salaries rose 5% overall and 10% (figures adjusted for inflation) in the southeastern U.S. outpacing inflation (McMillan and Price, 2001).

## **1.2 Executive Compensation**

Because of American sentiments about money and what it represents (Hacker, 1997), there is no more contentious subject than that of executive compensation.

Scholars suggest that pay serves several functions. Salary has a motivational effect and serves as an incentive that affects decisions made and strategies adopted by business leaders, both of which affect firm performance (Finkelstein and Boyd, 1998).

Remuneration is an indicator of value for executives. Pay is a means for employees to realize rewards for their efforts. In a for-profit context, executives and other employees can participate in the firm's profitability. Therefore, when an executive makes sound decisions and engages in profitable strategies, the executive and the organization are financially rewarded.

If executives are utility maximizers, as economic theory suggests (Ross, 1973), then compensation also serves as an evaluation indicator for executives as they weigh their own personal risks, cost-benefits, and time horizons (Finkelstein and Boyd, 1998). Managers weigh the level of compensation in a given organization in light of

compensation in other organizations, personal goals, both financial and intrinsic, and time to retirement. Salary levels may also affect stakeholder perceptions of the firm by suggesting that the firm is operated well by capable leadership, who by virtue of their competence, are deserving of the pay or that the firm is inefficient with workers who are overpaid.

Executive compensation for the nonprofit is viewed somewhat differently. For nonprofits, wages are weighed against applying the organization's resources to the mission more explicitly than in the for-profit context. It is difficult for a nonprofit organization to justify large remuneration to its executives when, as mandated by its tax-exempt status under section 501(c) of the tax code, it cannot distribute profits to individuals (Hansmann, 1987).

The tax-exempt classification serves as an indicator that the organization serves public purposes rather than personal interests (Salamon, 2002). A salary level deemed appropriate in a for-profit context might not be viewed as appropriate in a nonprofit context because it signals self-interest or a diversion of the organization's resources from the mission (Leete, 2006; Young, 1984). Because of their role as bearers of the public trust, nonprofit organizations are expected to behave differently from their for-profit counterparts. The religious context is particularly sensitive to the issue of handling money because resources do not belong to individuals but are managed as a stewardship (Wuthnow, 1997).

Stewardship defines the relationship between not only the believer and the Divine, but also the relationship between the believer and material possessions (Wuthnow, 1997). A stewardship perspective subscribes to a supposed distinction between the natural and

divine order (Wuthnow, 1994) where the pursuit of material goods conflicts with accomplishing divine aims. In this view, a good steward is one who uses material resources for higher ends and shuns personal self-interest. Religious nonprofits therefore, as it relates to finances, are in a double-bind of being both nonprofit and religious and are held to an even higher standard of accountability and scrutiny.

Churches, like many other nonprofits, must face what Salamon refers to as the human resource challenge (Salamon, 2002). There has been a consistent decline over the last generation in persons choosing to enter the ranks of the clergy (Chaves, 2002). Some scholars assert that the inability to recruit talented and qualified leaders is because of the inability of churches to pay adequate compensation to clergy (McMillan and Price, 2001; Chaves, 2002; Chaves, 2004).

The clergy labor market has both a supply and a demand side. On the supply-side, clergy enter the market by demonstrating a “calling” (Perl and Chang, 2000; Oden, 1983). The demand-side of the clergy labor market is defined by the congregational or denominational polity. The demand for clergy is met by the local church’s hiring process or by a denominational hierarchy’s appointive process. Religious organizations have a process, either formal or informal, by which the call is legitimized and clergy are credentialed for congregational leadership.

Clergy overall, with a few exceptions, have experienced a consistent decline in real income since the late 1960’s and are losing competitiveness relative to other professionals (Hudnut-Beumler, 1999, McMillan and Price, 2003). Hudnut-Beumler (1999) offered several explanations. Clergy experienced a decline in status as they were "de-centered" from a prominent position among cultural elites. Hudnut-Beumler

highlighted ideological arguments where clergy became less distinguished as a vocational class. Vatican II made the priesthood less "special" as the priesthood of all believers, where the view that each Christian was a minister, was espoused. The implication was that if all were ministers, then what was distinctive about the clergy separating them from the laity. Further, clergy seemed no longer willing to bear the weight as "arbiters of moral and theological truth". In essence, according to Hudnut-Beumler (1999), clergy were co-conspirators in their own devaluation.

There is an alternative explanation. Religious production is difficult to quantify and subsequently difficult to evaluate. Since many persons are unaware of the activities of a pastor (McMillan, 2002), it is difficult to assess the value of the work. Further, if Hudnut Beumler (1999) is correct in the perception among Christians that all are ministers, the implication is that anyone can perform ministerial tasks. The risk is that the work will be undervalued since clergy cannot justify a higher wage for their efforts and consumers of religious services will seek out lower priced substitutes.

Some may view the discounted salary as part of the call similar to the "donative labor hypothesis" in nonprofit theory, public-service motivation,, or "psychic income" where persons receive non-pecuniary benefits for their work (Hatt, 1950; Leete, 2006; Bright, 2009). Iannaccone and Berman (2006) suggest that low wages are a means of reducing fraud in religious institutions. The clergy are more convincing when they do not prosper materially from the believers' faith and when the salaries are low compared to the clergy's skill level. An alternative explanation is that since religion is a vocation-based sector, the low salaries serve as a screening device for unsuitable candidates (Heyes, 2005). Consequently, increased wages would decrease the number of clergy who

have a true calling and attract persons without a vocation. Bonifield and Mills (1980) state that low salaries are a result of clergy serving churches where their work is not valued because of the perceived availability of substitutes.

Low clergy salaries in the Protestant context have historical precedents in at least two religious traditions: Roman Catholicism and Judaism. The Roman Catholic clergy vow of poverty (Finke, 1997) associated with religious orders which symbolized humility and a disaffection for worldly material goods, in a practical sense, served to reduce the costs of labor for a given diocese. In Jewish tradition, the Mishnah warned scholars against using the Torah for material gain (Roth, 1997). Knowledge of holy writ was for the glory of God and the benefit of the people and not for amassing personal wealth. Clergy are viewed as a group in much the same way that people are grouped in society (Wilder, 1978) (e.g. class, gender, race, and orientation). The ramification is that an economic prescription imposed on one group of clergy impacts other clergy.

The subject of executive compensation for clergy is compelling for several reasons. Religious congregations hold a prominent place in American society. There are over 300,000 houses of worship in the United States (Chaves, 2002), representing a multiplicity of faiths. The National Council of Churches (2006), an ecumenical Christian organization in the U.S., reported that its membership included 105,421 congregations representing 44,154,806 members and 80,062 pastors, not including clients and constituents.

In the United States, religious congregations hold a privileged status among nonprofit organizations because they automatically receive tax-exemption (Anheier, 2005). The Internal Revenue Code considers advancing religion as a charitable purpose.

Religious organizations and houses of worship that receive charitable donations are classified as 501(c)3 and are exempt from federal taxation (IRS, 2009). Further, the government does not impose its reporting requirements on congregations because of the interpretation of the constitutional mandate for separation of church and state (Anheier, 2005).

As nonprofit organizations, churches and their leaders are subject to the “non-distribution constraint” (Steinberg, 2006; Hansmann, 1987). One of the tests to qualify as a nonprofit is that the entity must show that the organization’s assets and amassed surpluses may not be distributed, except for fair compensation, to the benefit of members, managers, or founders (Anheier, 2005). According to Giving USA 2009, religious giving in 2008 was 106.89 billion dollars representing 35% of all charitable giving. Since houses of worship garner the lion's share of charitable contributions it is imperative that churches expend funds according to the tax code and are held accountable.

The subject of nonprofit accountability spans several topics including internal governance issues, fiscal probity, self-inurement, mission drift, and effectiveness (Brody, 2002). The idea of self-inurement (i.e. personally benefiting from the organization’s resources) is at the core of the arguments pertaining to nonprofit executive compensation. Deliberations concerning money are not neutral affairs (Hacker, 1997). Our curiosity wants an accounting of why a salary is comparatively high or low from our own point of view. Because very little is understood as to how ministerial wages are determined there is the danger of misinterpreting what a high or low salary means. Understanding the underlying assumptions of clergy compensation and the inter-relationship between factors that contribute to clergy salary levels will help to increase accountability.



Accountability is a process where organizations are held responsible for performance and behavior within a particular environmental context (Young, 2002). Nonprofit accountability is a complex and difficult subject because of the competing and sometimes conflicting demands of stakeholders (Brody, 2002). Nonprofits do not have owners in the same sense as for-profits. Shareholders own for-profit organizations by virtue of capital participation through stock. In contrast, nonprofits have stakeholders. A stakeholder is anyone who can make a claim, real or imagined, on the organization (Anheier, 2005).

Stakeholders are both inside and external to the organization. Internal stakeholders include paid and unpaid staff, managers, clients, donors, and the board. The government and its representatives, the nonprofit sector, the media, and the public as a whole, represent some of the external stakeholders to whom the nonprofit is accountable in some way. Ideally, the board of directors functions on behalf of the stakeholders by governing the activities of the nonprofit, ensuring fiscal probity and mission attainment. However, each group within the multiplicity of stakeholders may view accountability differently (Brody, 2002).

As the public calls for increasing accountability on the part of nonprofits, one of the first areas to be examined is executive compensation. Similarly, when a church falls under public scrutiny the salary of the pastor is called into question. As public-serving entities, churches and clergy are not exempt from examination in matters of compensation.

This paper builds on previous clergy compensation, nonprofit wage setting, and organizational theory and research, and studies the churches of the North Georgia Annual

Conference of the United Methodist Church. This investigation considers a variety of factors including human capital, personal characteristics, organizational factors, religious market competition, clergy labor markets, and the principal-agent relationship. These factors are of interest because of their applicability specifically to the church context in the determination of clergy executive compensation.

Overall, this thesis offers a framework and tests a theory for clergy executive compensation which encompasses the following constructs. Previous clergy compensation research grounds the investigation in agency theory (Zech, 2007). Agency theory, or principal-agent theory, assumes there is a misalignment between the interests of self-serving managers (agents) who, without appropriate monitoring and reward arrangements (contracts), will shirk their duties to the firm (the principal) (Ross, 1973; Eisenhardt, 1989; Barkema and Gomez-Mejia, 1998). When principal-agent theory is applied to the local church and clergy, in its simplest form, the church is the principal and the clergy is the agent. In the case of churches affiliated with a denominational hierarchy, clergy are the agents of an additional principal, the denomination. The dual agency relationship creates a dyadic tension for clergy that affects their salary levels.

Ministerial salaries are determined within a specific congregational context. For example, American congregations function with a specific polity, they are located within different communities, and their membership sizes differ. Clergy may function in a solo pastorate or as a part of a ministerial team.

Like other workers, clergy possess certain characteristics that may be valuable to an employer. Rewards are expected for investment in human capital. Similarly, personal characteristics may also be of benefit to a worker and increase wages. Unfortunately, due

to gender and racial biases, other personal characteristics may result in lower salaries across a given sample.

Do all clergy compete against each other in an open labor market? Many clergy compete only against ministers from their denomination. Further, the denominational market is generally limited by geography (e.g. states, region, or an annual conference) although transfers do occur. Within an Annual Conference, the basic unit of governance for the United Methodist Church in a geographic area, there are thirteen different categories of clergy based on their conference relationship. Conference relationship is determined primarily by ordination status. Ordination is a religious rite signifying that a person is an authorized representative of the faith (Campbell, 1988). Ordination also signals a labor commitment to the denomination as well as the annual conference, and creates a stratified labor market where clergy compete for positions.

The present analysis also seeks to account for the variance in salaries among upper-stratum (ordained) and lower-stratum (non-ordained) clergy members of the North Georgia Annual Conference. The determinants of compensation in one stratum may not be significant in another stratum. For example, tenure or experience may be significant in the case of ordained clergy as opposed to non-ordained clergy.

In order to investigate these constructs, this study employs several academic disciplines and a multiple-lens strategy for theory development (Sabatier, 1999). According to Sabatier (1999), it is imperative that theorists demonstrate the ability to employ differing theoretical perspectives in their work. Applying multiple lenses requires theorists to acknowledge the assumptions, boundaries, and shortcomings of

particular theories. Theories are not universal in their application. Some theories work better under certain circumstances than others.

Sociologists have traditionally studied ministers and churches examining clergy attitudes and the role of religion in society (Bonifield and Mills, 1980). This study goes beyond traditional sociology to encompass organizational studies, nonprofit research, religious studies, public policy, and labor market economics. There are also applications for this research in communities outside the academy.

This study also has implications beyond the religious context as well. For example, the government has an interest in the salaries of clergy. In its monitoring role, the government cannot allow nonprofits to violate the nondistribution constraint. Beyond the monitoring role, government-nonprofit relations have been extended to houses of worship because of the Faith-Based Initiative (Pew Forum for Religion and Public Life, 2003). As principals, when engaging in public-private partnerships with churches, the government has an interest in knowing that its agents will contribute to the public's interest and not their own self-interest.

The plan of the paper is as follows. Chapter Two provides a survey of the pertinent literature in order to place the executive compensation framework in the context of previous scholarly work. Chapter Three describes a proposed clergy compensation framework, the data, the variables, and the empirical model for investigating the determinants relating to clergy salaries. Chapter Four explains the results of the model and the findings with respect to the foregoing constructs. The investigation concludes with Chapter Five devoted to discussion, policy implications, limitations, and next steps for research.

## **CHAPTER TWO**

### **LITERATURE REVIEW AND THEORETICAL FRAMEWORK**

This chapter addresses several goals. First, the chapter demonstrates how the scholarship utilized to explain the existence and development of the nonprofit sector applies directly to churches. Third, the literature review illustrates how churches and clergy are similar to other organizational forms and their workers. Fourth, the survey highlights the empirical similarities found in the nonprofit executive and clergy compensation literatures. The chapter concludes with a discussion of the factors that contribute to ministerial pay in previous clergy compensation research.

#### **2.1 The Church and Nonprofit Organizational Research**

Religious organizations provided the foundations for early American society and the nonprofit sector (Anheier, 2005). Although churches and religious nonprofits have operated as a part of the American landscape for centuries, little scholarship exists which links them to the nonprofit sector, e.g. examines churches from the nonprofit perspective (Cadge and Wuthnow, 2006). This dearth of research is intriguing since research traditionally applied to nonprofit organizations transfers easily to the study of religious organizations.

Cadge and Wuthnow (2006) observe that some scholars subscribe to the view of secularization wherein religious participation is soon to be decreasing in American society, while others (Chaves, 1994) assert that the historical role of religion is changing as persons affiliate with specialized organizations besides religious ones. The advent of Charitable Choice, the legislation permitting religious organizations to compete for public funding for providing social services, and the extension of the White House Office

of Faith-Based and Community Initiatives highlight the significance of identifying churches as not merely religious institutions, but also as service-providing religious nonprofits and applying nonprofit scholarship to the study of such organizations.

How does nonprofit theory apply to churches? Previous scholars have understood nonprofit organizations in terms of three failures: market failure, government failure, and contract failure (Steinberg, 2006). These theories also provide a rationale for the role of churches in providing religious goods.

In classical theory, markets seek to provide goods and services at an optimal efficient level where marginal benefits are just offset by marginal costs and production efficiency is assumed (Steinberg, 2006). Market failure occurs where there are externalities, economies of scale, public goods or other conditions inhibiting efficient levels of production.

Markets operate best in the provision of private goods where consumption is limited to paying customers. We have seen for-profit firms enter into certain nonprofit realms like hospitals and education yet there is no evidence of “for-profit” churches in the sense of a for-profit business although some churches may be more “business-like” in the pejorative sense focusing more on the market than achieving the mission.

Weisbrod’s public goods theory provides insight into the existence of religious nonprofits, e.g churches, in the United States (Weisbrod, 1977). The inability or unwillingness of the government to provide all goods or services for which demand exceeds marginal costs is termed “government failure” (Steinberg, 2006). In Weisbrod’s view, nonprofits provide public goods in cases where the government cannot or will not provide them. The government will provide goods consistent with preferences at the

demand level of the median voter, satisfying a majority of the population demanding public and quasi-public goods. However, appealing to the median voter alone will not satisfy all existing demand. Unmet demand results from demand heterogeneity or diversity of preferences. Further, since there are constitutional restrictions that prevent the government's provision or sponsorship of religious activity in the United States (Anheier, 2005), although there are examples of state-sponsored religion elsewhere, churches and other religious organizations address the unmet preferences for religious public goods.

Nonprofits also arise because of contract failure (Steinberg, 2006). Under circumstances where service quality cannot be easily evaluated, consumers will choose a nonprofit service provider they deem more trustworthy because of the absence of the profit motive (Hansmann, 1987). In such cases, there are information asymmetries where the seller knows more about the quality of the service than the buyer (Anheier, 2005). The usual contract mechanisms, found in market transactions, fail because of the accompanying monitoring costs associated with governing the contracting and evaluating the service provided. In the case of religious goods, it is difficult for parishioners to monitor the activities of clergy and churches related to religious goods production and assess the quality of such services.

Religion, in America, has been viewed historically as a public good (Anderson, 1988; Lipford, et.al., 1993). Public goods have two distinct characteristics, non-excludability and non-rivalry (Anheier, 2005). The public good attribute of religion is that there is benefit to the community from the presence of a religious populace because of the espoused values of many religions of being of service to humanity. The advantage

to society of healthy religion is non-excludable and non-rival. Drawing on the nonprofit theory, the public good nature of religion serves as a deterrent to for-profit firms and government entering into religious goods production.

Public goods theory is insufficient by itself to explain the existence of churches and religious nonprofit because religious goods have private aspects. Buchanan defines club goods as goods that are not purely private or purely public (Buchanan, 1965).

Hansmann's prior work examined social clubs and found them to be an exception to contract failure theory. In the case of country clubs, the patrons were able to judge the quality of the services. The nonprofit form allowed the consumers to have control over the enterprise. The exception resulted in consumer control theory. As in the case of the country club, there are also social determinants accompanying church affiliation.

Niebuhr (1929) observed that social aspirations and affinity serve to define church membership much like a social club.

According to Sandler and Tschirhart (1997), a club shares the following characteristics. Clubs are voluntary. They are formed for mutual benefit. Clubs share production costs, common member characteristics, an excludable good, or a combination of one or more of these elements (Sandler and Tschirhart, 1997). Through the form of the club, an institution can limit access to the good by others and impose costs, both pecuniary and otherwise, for its use (Sandler and Tschirhart, 1997).

Nonprofit organizations are structurally diverse. Hansmann (1987) categorizes nonprofits on the basis of revenue source and control. Donative nonprofits are those who receive the bulk of their revenues from donations, while commercial nonprofits are funded by fees-for-service and the sale of goods. In the case where the locus of control,



the ability to elect the firm's governing body, is in the hands of the patrons, Hansmann refers to such organizations as mutual nonprofits. Entrepreneurial nonprofits, in contrast, operate with a self-perpetuating board. According to Hansmann's typology categorizing nonprofit firms, churches fall into the category of "donative mutual" nonprofits (Hansmann, 1987).

Churches are voluntary membership organizations (Chaves, 2004). As a donative mutual nonprofit, with few exceptions, the control is in the hands of the members. Consumer control theory (Hansmann, 1987) applies to the case of religious congregations in that patrons adopt the nonprofit form in an effort to ensure control over the work (Hansmann, 1987). Churches are customer-controlled firms in as much as members provide the revenues through offerings and serve on the governing board. As such, churches may be viewed as religious nonprofit clubs (Klick, 2006).

Estelle James (1987) suggests that the classical economic theories for the existence of nonprofits ignore their religious origins. In contrast, she posits demand and supply-side explanations for the existence of the nonprofit sector. Although James's research focuses on nonprofit firms outside of the American context, her analysis has implications for understanding the role played by American religious congregations.

On the demand-side, James addresses two elements: excess demand and differentiated demand (1987). According to the theory of excess demand, private voluntary firms will provide the production of quasi-public goods when there is limited government supply. James then addresses the question of limited supply on the part of government. She theorizes about the needs of the unmet demanders. Since the government will only supply goods at the level of the median voter, what then happens to

the demand preferences of the minority? James proposes that the median voter theory falls short of addressing inequities in political power. Her contribution is that in cases when there is a high degree of variability in the perceived costs and benefits of government provided quasi-public goods and services, a private voluntary sector will emerge to address the excess demand of the underrepresented and disempowered (1987).

Differentiated demand reflects the type of service rather than the amount of service provision. Several differentiating factors would contribute to the growth of a private sector providing goods and services (James, 1987). If the preferences were deeply held due to religious or cultural differences, then the private sector would grow due to the heterogeneous demand. Additional cases occur where the government is constrained to provide a homogeneous product, where government due to geographic dispersion cannot meet the diversity of tastes efficiently, or the dominant group in the culture cannot enforce their preferences leaving private production as an option. Churches, as suggested by James, address the varying and intense product requirements characteristic of religious pluralism.

James (1987) also provides a supply-side rationale for the emergence of nonprofit service provision. Among her explanations is religious motivation. Ideologues are value-based entrepreneurs that gravitate toward the nonprofit sector (Anheier, 2005). James (1987, 1989) sees nonprofits as organizations that promote socialization and group identification. As such, entrepreneurs will develop organizations that provide services to a particular group while promoting their own values. Gill (2001) describes churches as “proselytizing religious firms” that operate as “faith maximizers” seeking to win as many faith-adherents as they can. For example, parochial schools provide not only education,

but also religious indoctrination as proselytizing religious organizations seeking constituents.

Church denominations are similar to other firms as described by Coase (1937). The firm serves as an organized basic unit of production that weighs costs and benefits in the production of goods and services. Organizing a firm is more efficient than enacting individual contracts for each transaction when monitoring the multiplicity of individual contracts is cost prohibitive.

Coase states that organizations save on transaction costs when an authority directs the resources. Firms become larger with the addition of transactions. Additional transactions, then, cause the firm to incur more costs. Denominations form by organizing local churches into a system of relationships in order to deliver a product with lower transaction costs. The organizational form of choice, for monopolists, is often the federated / franchise system (Young and Faulk, 2010). In their investigation, Young and Faulk (2010) characterize nonprofit franchises along two dimensions: 1) the relationship between the main body and the affiliated groups and 2) the degree of homogeneity among the associated organizations. Central organization control can range from a decentralized support role to an arrangement where the locus of control rests with the central body. Affiliate groups can vary from uniform to diverse in terms of homogeneity.

Applying a franchise model to churches is not novel. In *Wealth of Nations*, Adam Smith likened the medieval church to a corporate franchise (Anderson, 1988). In the case of denominational churches, the denomination attempts to strike a balance between homogeneous affiliates that operate in the same manner and heterogeneous affiliates that apply different methods based on community needs (Young and Faulk, 2010). As a

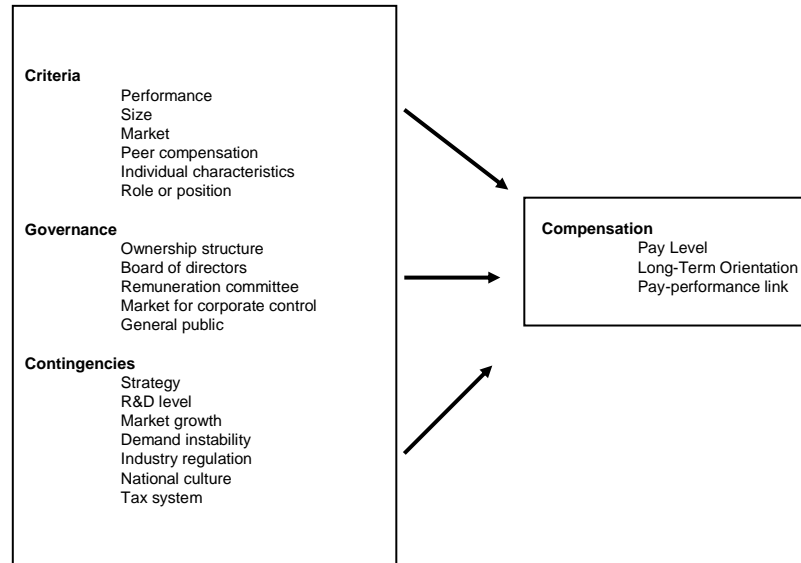
system, the local church and the denomination employ the same symbols, resources, and share a common identity.

The denomination must also strike a balance in terms of its authority. As in the Young and Faulk taxonomy, control is balanced although it is under the auspices of a centralized authority. For example, in the United Methodist church, the central body, the denomination, does not fully control the local church because although the denominational structure deploys and appoints clergy leadership through its representative the bishop, the churches pay apportionments, e.g. franchise fees or taxes (Oster, 1992), to the denomination and governs itself at the local level. Essentially, the denomination operates as a rent seeker from the downstream local church. It is in the denomination's best interest, regardless of denominational structure, to deploy clergy leadership, e.g. franchise operators, who are amenable to the congregation and will ensure that the franchise fees are paid.

## **2.2 Executive Compensation Literature**

An extensive literature exists on executive compensation outside of the religious sector (Barkema and Gomez-Mejia, 1998). In Figure 2.1, Barkema and Gomez-Mejia (1998) presents a general framework for executive compensation determinants in the for-profit context. This framework provides a point of departure for the present study yet does not fully transfer to the religious context. For example, in the compensation box, the long-term orientation refers to equity participation for for-profit executives who may benefit from stock ownership, an arrangement that does not exist for nonprofit executives including clergy.

### A General Framework for Executive Compensation



Barkema and Gomez-Mejia (1998)

Figure 2.1 A General Framework for Executive Compensation

The majority of for-profit executive compensation research focuses on the link between pay and performance. Linking compensation to financial performance is a difficult matter. What types of measures are relevant? Should the organization use accounting performance measures that affect cash compensation or stock performance that relates to stock options as compensation (Pavlik, et.al. 1993)? In the for-profit context, some authors suggest using the measure of company profits as a percentage of sales, profit, market equity value, revenue, and firm size as a function of sales and revenue (Deckop, 1988). Others focus solely on the creation of shareholder value through stock prices. However, how to measure economic value is in dispute (Bacidore, et. al., 1997).

In a meta-analysis of 105 executive compensation studies that attempted to find a link between pay, firm size, and performance, Tosi, Werner, Katz, and Gomez-Mejia

(1997) found four main determinants of for-profit executive salaries: absolute firm size, changes in firm size, financial performance, and changes in financial performance (Gomez-Mejia and Wiseman, 1997). However, other factors may influence executive wages.

Ezzamel and Watson (1998) suggest that CEO's are paid a market rate for their labor. The challenge is in defining the market and identifying a "comparison other" as an external point of reference. Peer compensation, using comparable roles as a measure, affects CEO pay.

A dominant theoretical formulation for executive compensation studies is agency theory. An agency problem arises when an actor, the principal, enlists the services of another, an agent, to operate on behalf of the principal in decision-making (Ross, 1973). The problem assumes conflict between the goals of the principal and agent and information asymmetry where the principal cannot, or without incurring great expense, monitor the activities of the agent. Additionally, the principal and agent may have different risk preferences resulting in a lack of alignment in decision-making (Eisenhardt, 1989). A firm's ownership structure influences executive compensation.

Firm governance is not limited to the influence of the board of directors. Governance includes the effects of the media and the public writ large, remuneration committees, and the market for corporate control (Barkema and Gomez-Mejia, 1998). When persons from outside the firm are in the majority of those serving on a compensation committee or board of directors, salaries are comparably lower (Conyon and Peck, 1998).

An explanation for salary determinants is also found in human capital theory. Human capital has been used to explain the relationship between salary levels and firm size because human capital attributes are needed to manage larger and more complex organizations (Gomez-Mejia and Wiseman, 1997). Human capital refers to an individual's capacity to produce and perform tasks (Schultz, 1962). Human capital theory stands on the proposition that people enhance their capabilities through self-investment. Consequently, earning differentials reflect those payoffs to investments in human capital. Spence (1973) asserts that human capital serves as a signal in the job market potentially predicting productivity.

In contrast, personal characteristics like age, race, and gender are not subject to manipulation. Although both human capital and personal characteristics transmit information to employers that speak to desirability as employees, they are not the same. Spence (1973) views human capital as signals and personal characteristics as indices. Employees employ a signaling strategy as they make decisions about self-enhancement. Indices are a given which are also taken into consideration by employers. The difference between signals and indices is that human capital is alterable, while indices are unchangeable factors.

According to Becker (1962), there are several ways to invest in human capital including education and job experience. In his treatment of on-the-job-training, Becker differentiates between general training and specific training. General training increases the marginal productivity of the trainee for many firms, not only for the firm that provided the training. Specific training favors the organization that administers the training. Becker observes that most training is neither completely general nor completely

specific. Whether the training is specific or general, it benefits strong monopsonists because laborers have fewer alternative employment opportunities under monopsony.

Becker's analysis of specific training has several implications. There is the risk of labor turnover for firms even in monopsonistic labor markets. In order to reduce the risk, Becker asserts that rational firms will pay higher wages to employees after it has trained them as a means of sharing on the return from training and as an effort to retain trained workers. Generally trained employees will continue to receive lower wages than specifically trained workers. Employees with specific training would be less likely to quit and employers would be less likely to dismiss them.

Weisbrod (1962) observes a strong positive relationship between earning levels and education. He also notes the benefits of receiving additional education. A person with education beyond high school also has expanded employment options. In addition to more job choices, Weisbrod claims that an educated person will seek employment with non-pecuniary rewards and may sacrifice monetary compensation.

### **2.3 Nonprofit Executive Compensation Research**

The role of a ministerial leader of a church parish is analogous to the job of an executive director of a nonprofit. Aside from the religious aspect, the organization is a mission-maximizing nonprofit. Nonprofit wage research, therefore, is applicable and contributes to the development of our theory of clergy executive compensation.

Young (1984) analyzed nonprofit wages, addressing the following research questions. 1) Is there a substantial difference in nonprofit compensation between sectors? What accounts for the differences? 2) Are the sectoral differences substantial for different classes of employees? Young found that nonprofit workers are paid less than their



counterparts generally speaking. However, within industries, the evidence is mixed suggesting other factors at work.

Weisbrod (1983) studied the pay differential between nonprofit and for-profit lawyers. He concluded that nonprofit lawyers have different preference structures that lead them to accept substantially lower wages than their equally qualified for-profit counterparts. Weisbrod's finding supports the "donative labor hypothesis" where the good produced is perceived to be different or of higher quality than the comparable for-profit good; therefore, the worker is willing to donate the cost of labor in exchange for participating in a noble enterprise of greater public benefit (Leete, 2006). Weisbrod was the first to support a commonly held notion that nonprofit workers will do similar work as persons in a for-profit context at a discount.

Preston (1989) came to a similar conclusion stating that nonprofit workers seeking to provide goods with positive externalities will accept lower wages. Oster (1998), drawing upon the work of Young (1984), concurred by asserting that nonprofits provide non-monetary benefits to workers in lieu of financial compensation. However, Leete (2001) found only slight differences in wages across the economy between for-profit and nonprofit workers. Other scholars found that nonprofit salaries are comparable with market wages while apparent differences exist, however, at the occupational and industry level (Ruhm and Borkowski, 2003).

Wage differentials can also be partially explained by the theory of compensating differentials (Leete, 2006). According to the theory, workers who have specialized skills, skills that are complex or expensive to attain, or who work under undesirable conditions will earn more. On the other hand, those workers with easily attained skills and

preferable working conditions will earn less. Comparisons of nonprofit and for-profit wages that do not take into account the differences in industry, occupation, or the characteristics of individual workers, tend to report that nonprofit workers earn less than for-profit workers (Leete, 2006).

Nonprofit executive compensation research, summarized in Table A.3 (see Appendix A), suggests several factors that contribute to executive salaries. Most scholars propose that organizational size is important (Oster, 1998; Frumkin and Keating, 2001; Twombly and Gantz, 2001; Hallock, 2002; Gray and Benson, 2003); however, the measures of size vary. Most scholars use assets as a measure of size. Some use total assets (Oster, 1998; Frumkin and Keating, 2001; Twombly and Gantz, 2001; Gray and Benson, 2003) while others use net assets (Hallock, 2002).

Organizational complexity also positively impacts executive salaries (Gray and Benson, 2003; Twombly and Harvey, 2007). Twombly and Harvey (2007) measure organizational complexity by revenue diversification. Research suggests that organizations that operate with multiple revenue streams may be more administratively and financially complex than groups that rely on single funding sources (Gronbjerg 1993). Gray and Benson (2003) utilize total assets as a proxy for organizational complexity assuming that larger organizations are more complex.

Financial strength and variability in revenue streams is also a strong determinant according to researchers (Oster, 1998; Frumkin and Keating 2001; Twombly and Gantz, 2001; Krishnan, Yetman, and Yetman 2006; Twombly and Harvey, 2007). Some scholars believe that fiscal health ratios are important in the nonprofit sector as signals to stakeholders of organizational viability and sustainability (Tuckman and Chang, 1991;

Greenlee and Trussel, 2000; Trussel 2002).<sup>1</sup> Therefore, an organization with strong financial indicators will reward the executive leader accordingly.

An organization that is more dependent on private donations, rather than public funding or fees, will have lower salaries because of board concerns over public image and stakeholder concerns over the diversion of resources (Oster, 1998). Twombly and Gantz (2001) observe that in the religious, environmental, and higher education organizations, a greater dependency on charitable donations decreases salaries perhaps as a signal of fiscal restraint to donors. In the presence of monitoring mechanisms administered by the grantor, organizations receiving government grants receive more pay (Hallock, 2002).

Some researchers suggest that executives are rewarded in accordance with measures that assess how well the nonprofit achieves its mission (Baber, Daniel, and Roberts, 2002; Krishnan, Yetman, and Yetman 2006). Positive revenue increases are a signal of mission attainment (Krishnan, Yetman, and Yetman 2006). Baber, Daniel, and Roberts (2002) found that the changes in executive compensation are positively affected by the changes in the amounts spent on programs and the degree to which the programs are monitored by an oversight agency.

Other scholars have studied a link between pay and performance in nonprofit executive compensation (Gray and Benson, 2003; Twombly and Harvey, 2007; Mesch and Rooney, 2008). Mesch and Rooney (2008) studied nonprofit fundraisers and found a strong positive pay for performance link as measured by the revenues garnered for the organization. In contrast, Harvey and Twombly (2007), who measured performance

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<sup>1</sup> These studies address financial health apart from executive compensation.

using financial indicators, found the financial measures had little impact on executive wages.

Cultural factors within a given context impact the size of the CEO pay package (Oster, 1998; Gray and Benson, 2003). Oster (1998) found that religious affiliation reduces executive salaries. Gray and Benson observe that nonprofit executives at small business development centers related to college campuses earned less than their colleagues serving centers without a campus affiliation.

Other scholars argue that human capital factors and personal characteristics like gender, education, and experience affect compensation levels (Oster, 1998; Gray and Benson, 2003). Although not significant, the negative coefficient associated with female executives across nonprofit organizations was suggestive for Oster (1998). Gray and Benson (2003) found education and tenure to be positively significant in their study.

## **2.4 Clergy Compensation Studies**

Operational formulas and available resources used to determine clergy compensation vary as much as congregations and churches (Arnold, 1991; Schuchmann, 2000). According to a 1999 survey on church budgets, 70 percent of the clergy interviewed felt that they were fairly compensated, while 30 percent felt they were underpaid (Schuchmann, 2000). That study also suggested variations based on the size of the church or congregation as well as location where pastors of large membership churches in urban areas were paid more.

Denominational standards, cost of living, transportation and automobile expenses, insurance, clothing allowances, and continuing education all affect salary levels (Arnold, 1991). Average income of congregational families is also used as a benchmark to

determine appropriate clergy packages (Arnold, 1991). Congregational documents to guide clergy compensation are available such as *The Annual Compensation Handbook for Church and Staff* (Schuchmann, 2000). However, there are very few empirical studies focusing on the salaries of ministers.

Scholars have attempted to explain clergy compensation through various theoretical models, such as agency theory, denomination-specified labor markets, promotion tournaments, and free labor markets (Trawick and Lile, 2007; Zech, 2007; Haney, 2008). Table A.2, in Appendix A, summarizes the research on clergy executive compensation. Researchers studying the wages of clergy suggest that the key factors are: size, market factors, personal characteristics, human capital, congregational wealth, performance, and denominational affiliation (McMillan and Price, 2001; McMillan and Price, 2003; Trawick and Lile, 2007; Graham, 2007; Zech, 2007; Haney, 2008). Denominational affiliation and education exhibited mixed results as factors affecting clergy salaries (McMillan and Price, 2001; Trawick and Lile, 2007; Zech, 2008; Haney, 2007).

The measures of size vary from congregational membership (McMillan and Price, 2001; Trawick and Lile, 2007; Zech, 2007) to worship attendance (McMillan and Price, 2003; Haney, 2008). The market variables examined have been community size (Trawick and Lile, 2007; Zech, 2007), open vs. closed labor market due to congregational polity (McMillan and Price, 2003; Zech, 2007; Haney, 2008), and the degree of competition among denominations (Trawick and Lile, 2007).

The human capital and personal characteristic variables examined include race (McMillan and Price, 2003), gender (McMillan and Price, 2003; Graham, 2007; Zech,

2007), education (Perl and Chang, 2000; McMillan and Price, 2003), and experience (McMillan and Price, 2003; Zech, 2007). Lummis (2003) and Dart (2004) include marital status as a personal characteristic determinant suggesting that congregations prefer their clergy to be younger, male, and married. This is not a discriminatory attitude independent of job performance. For instance, congregations may be willing to pay a premium to a clergyperson who can potentially attract young families. Additionally, the spouse may be expected to take on volunteer duties.

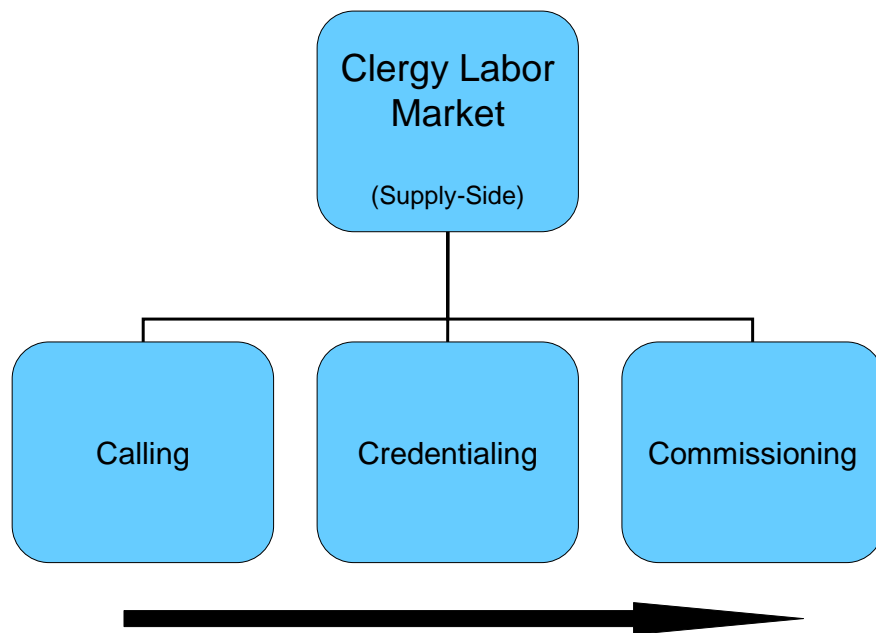
Congregational wealth has been measured by laity average income (McMillan and Price, 2003), the cost of living index for a given geographic area (Trawick and Lile, 2007), and the church budget (Graham, 2007; Trawick and Lile, 2007). The performance measures that were investigated that affect clergy salaries are: the ability to manage a budget (Zech, 2007), supervision of clergy (Zech, 2007), and new members (Trawick and Lile, 2007).

Zech (2007) tests the agency relationship empirically. He assumes that clergy are risk and effort averse and that in order to manage the principal-agent relationship risk neutral churches adopt a pay-for-performance model of compensation. Zech finds a weak relationship between performance, operationalized by clergy activity measures (preaching, teaching, visitation, etc.), and clergy compensation.

The most significant results for Zech (2007) are those associated with promotion tournaments, where clergy compete for wages and increase their salaries through “promotions” by moving to larger, more prestigious, congregations with more responsibility. The promotion tournament variables are: number of clergy supervised, membership size, and size of community. Perl and Chang (2000) agree with Zech in

regards to clergy supervision as they observe that supervising others may also lead to increased compensation for clergy as secular norms of professionalization are exhibited in churches.

One of the dominant analytical lenses for examining clergy executive compensation is clergy labor markets. A labor market is the arena where workers exchange their labor for pecuniary and non-pecuniary rewards (Kalleberg and Sørensen, 1979). There exists both a supply and demand-side for clergy labor.



Harvey (2010)

Figure 2.2 Clergy Labor Market Supply-Side

The supply-side of the clergy labor market is illustrated in Figure 2.2. Clergy enter the labor market by the expression of receiving a supernatural "calling" (Niebuhr, 1977; Oden, 1983; Campbell, 1988; Perl and Chang, 2000). This calling is similar to the

public-service motivation found in public service workers (Bright, 2009). Queuing theory (Reskin and Roos, 1990) suggests that workers rank jobs in terms of a job queue where the most desirable jobs are at the top. As such, ministerial work is high on the job queue for persons entering the ministry (Chang and Bompadre, 1999). Ministers then enter into some form of credentialing process (e.g. licensing, seminary education, or ordination) where their gifts (perceived skills necessary for ministerial success) are affirmed, legitimizing their calling and making them suitable for deployment into the parish, as illustrated in Figure 2.2 (Niebuhr, 1977).

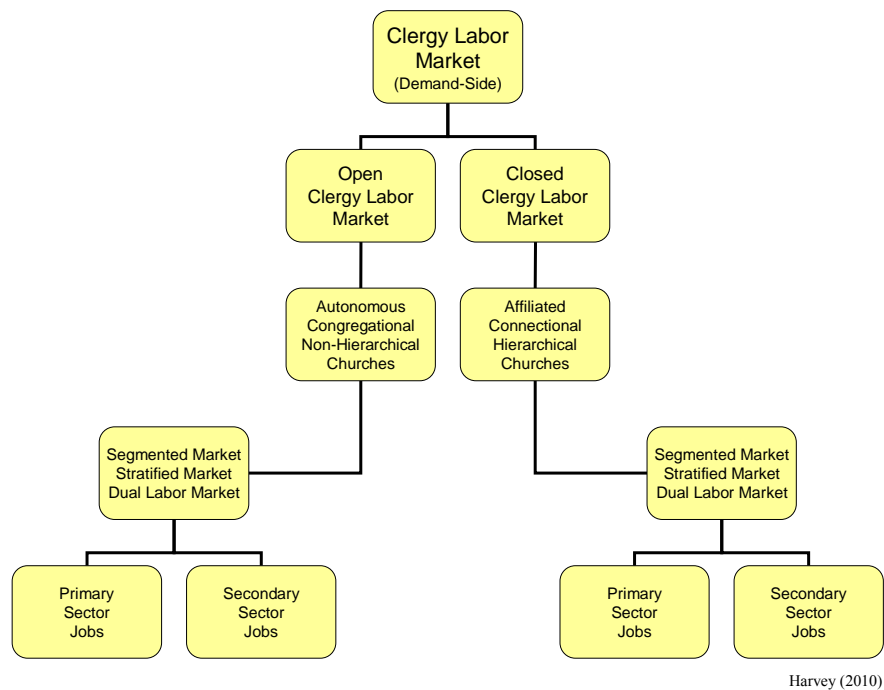


Figure 2.2 Clergy Labor Market Demand-Side

The demand-side of the clergy labor market is comprised of the congregation or denominational/ecclesial structure as seen in Figure 2.3. Researchers suggest that two



labor market structures exist depending on whether a congregation or church operates autonomously or under a hierarchical structure of centralized governance (Trawick and Lile, 2007; Haney, 2008). Bonifield and Mills (1980) categorize the autonomous and hierarchic markets of alternative denominations as competitive or monopolistic. Scholars also include a third "mixed" labor market where clergy salaries are determined at the intersection of free market and hierarchical mandates, e.g. Zech (2007).

Autonomous denominations are loosely linked congregations with no formal hierarchical governance (e.g., various Baptist and Pentecostal denominations). In contrast, hierarchical denominations operate as a single body with significant centralized governance at the top. Hierarchical denominations include the Methodist, Lutheran, Episcopalian, and Presbyterian denominations (Haney, 2008).

Such variety in church governance suggests various degrees of asymmetrical bargaining power among pastors and congregations and denominations. In cases where a denomination has a higher degree of centralized authority, as in the case of hierarchical denominations, pastors and congregations have less bargaining power than the denomination. In autonomous denominations, the congregations have more bargaining power than the denomination and the pastors because the denomination cannot enforce its wishes on the churches and the pastors serve at the behest of the congregation.

The imbalance in the power dynamic as it relates to employee / employer negotiations is attributed to the monopsonistic nature of the labor markets for ministers (Chang and Bompadre, 1999). Aside from serving as parish clergy, the employment options for clerics are somewhat limited because of their firm specific or enterprise skills (Althausen, 1989).

Althauser (1989) defines an internal labor market as all jobs within a firm but also includes occupational labor markets across firms. Denominational clergy find themselves in an internal or insular labor market as they affiliate with a specific religious body and exempt themselves from the open clergy labor market (Chang and Bompadre, 1999). For example, clergy serve churches that reflect the religious orientation of the ministers. It is rare for a Presbyterian minister to serve a Methodist church. Ministers may transfer into another denomination that recognizes the ordination of the minister. However, there are educational requirements as to theology and doctrine before doing so. Generally, once clergypersons are in a denominational labor pool, they limit themselves to the insular denominational market.

Perl and Chang (2000) examine the degree to which education is used to create a stratified labor market and the effects of education on the earnings of clergywomen. These authors found that seminary degrees positively affect salaries more strongly in theologically conservative denominations that do not generally require such education than in liberal denominations. Female clergy receive lower returns on their Masters of Divinity in denominations that require seminary education than clergywomen in denominations without the seminary requirement. In congregations that are autonomous, having the ability to hire their own pastor and having clergy who graduated from a university affiliated seminary increased earnings.

Within the United Methodist Church, there is a Commission on Equitable Compensation in each Annual Conference (Olsen, 2008). The purpose of the commission is to make recommendations as to minimum salary levels for clergy members of the annual conference. The salary levels correspond to the conference

relationship of the pastor. The conference relationship is determined by ordination status as it relates to the North Georgia Conference.

The effect of the policy guidelines from the Equitable Compensation Commission is consistent with dual, split, or segmented labor market theory (Kalleberg and Sørensen, 1979; Dickens and Lang, 1985, 1988). According to the theory, there is a difference in the price of labor for performing the same work within two distinct sectors, a primary and secondary job sector. Some scholars suggest further distinction between upper-tier and lower tier jobs within the primary sector (Kalleberg and Sørensen, 1979).

This study suggests that the Equitable Compensation Commission, through its policies, creates a stratified labor market for clergy where not all ministers compete with each other for jobs equally. Ordination serves to distinguish persons as set apart for clergy leadership within a church organization after undergoing a process of examination and credentialing. Ordained clergy (ordained members of the North Georgia Annual Conference) compete only with other ordained clergy while the non-ordained compete with clergy who do not hold North Georgia ordination status.

Haney (2008) also suggests that there is some degree of variance within different denominational hierarchical structures relative to influence over compensation and benefits packages and pastoral assignment. The United Methodist denomination possesses a more elaborate and highly structured hierarchy. As the largest hierarchical denomination, its clergy labor pool is the most centrally regulated (Haney, 2008). The United Methodist Church has a history of mandating minimum clergy compensation levels. Regardless of the differences within hierarchical denominations, most follow formalized denominational guidelines or mandates for clergy compensation.

Haney (2008) found that intervention by denominational hierarchies in setting clergy salaries raised the median salaries and benefits levels significantly, relative to the free labor market for clergy. This result was consistent across denominational size. In contrast to Haney (2008), Zech (2007) did not find significance related to denominational affiliation. Specifically, United Methodist clergy fared no better than comparable clergy of other denominations.

McMillan and Price (2003) expanded their 2001 study of Protestant clergy salaries and studied market factors influencing salaries of Protestant and Catholic ministers. They determined that clergy in larger Protestant churches, belonging to denominations with a connectional polity (e.g. centralized control over the development and assignment of clergy), and serving churches in urban areas, have higher salaries than their Catholic colleagues. Additionally, they found that male Protestant clergy earn more than female clergy, and white pastors are paid more than African American pastoral leaders.

Trawick and Lile (2007) studied the labor market for Southern Baptist clergy in seven Southern states to determine the effects of spatial concentration on salary. They found that the greater the concentration of Southern Baptist churches in a particular county, the higher the wages for Southern Baptist ministers. Conversely, a high concentration of churches from other denominations had no perceivable effect on Southern clergy salaries.

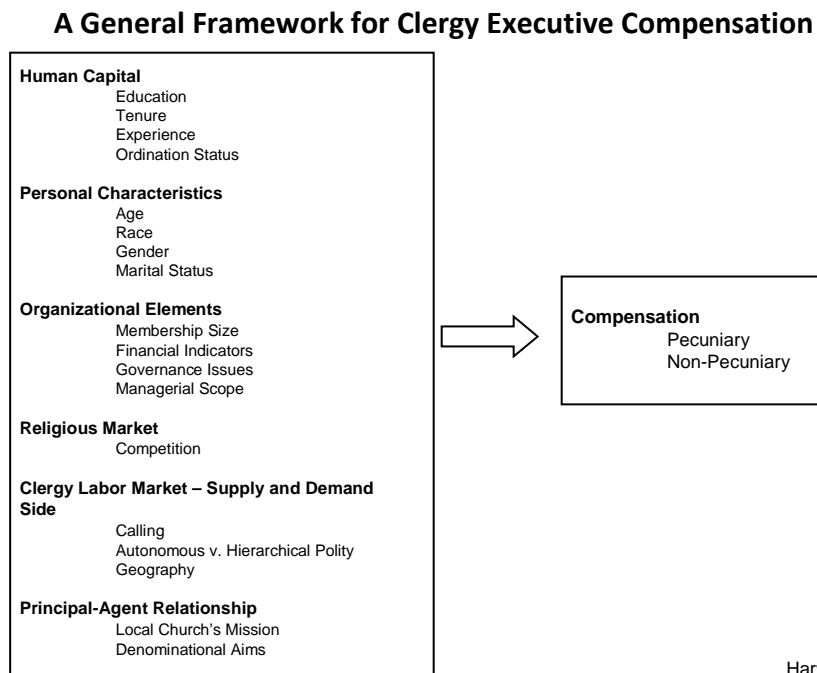
The main goal of this chapter was to survey the literature applicable to understanding the factors that contribute to the salaries of clergy while providing a conceptual framework for viewing churches as nonprofit organizations. The next chapter

proposes the general framework for clergy executive compensation that provides a point of departure to create an empirical model for the determinants of ministerial wages. Additionally, the chapter establishes the basis for a theory and the testable hypotheses associated with clergy salaries.

## CHAPTER THREE

### METHODOLOGY AND DATA

Because the literature on clergy executive compensation is sparse, in both the number of peer-reviewed studies and the number of studies using multivariate analysis, an important contribution to knowledge would be to apply the studies of nonprofit executive compensation to the case of executive clergy. Many of the clergy compensation determinants are similar to the factors advanced by nonprofit executive compensation research. The empirical analysis will include the testing of nonprofit executive compensation, organizational, and labor market hypotheses on clergy salaries.



Harvey (2010)

Figure 3.1 Clergy Executive Compensation Framework

As a part of the analysis, following Barkema and Gomez-Mejia (1998), this research proposes a general framework for clergy executive compensation in Figure 3.1. The clergy compensation framework (CCF) is valuable because within the framework there is the opportunity for theory development.

Ostrom (1999) describes frameworks as helping in identifying elements and relationships that contribute to analysis. Frameworks organize the parameters of inquiry by identifying and defining the variables that would be included in a theory of a particular phenomenon. They provide the meta-theoretical language by which theories can be compared and assist in generating the initial questions for analysis. In this case, the CCF summarizes the factors identified in previous research, including nonprofit executive compensation studies, found to influence executive clergy wages: human capital, personal characteristics, organizational elements, the religious market, clergy labor markets, and the agency relationship (principal-agent relationship).

This research models the determinants of pastor's salaries, as seen in the standard single labor market wage model, with a log wage equation using ordinary least squares regression where the natural logarithm of clergy total compensation in 2008 is the dependent variable (Dickens and Lang, 1988; Leete, 2001). The natural logarithm of clergy total compensation in 2008 is the dependent variable. By employing the natural log of executive compensation, the beta coefficients on the explanatory variables are interpreted as percentage changes in compensation.

Following previous scholars (Frumkin and Keating, 2001; Baber, Daniels, and Roberts, 2002; Krishnan, Yetman, and Yetman, 2006) this investigation uses a lagged model for some of the independent variables. The lagged model is appropriate because

budgets for a given year are developed in advance. The consumer price index deflator is also applied to the executive compensation figures in 2008 so that they and the 2007 financial data would be in comparable dollars.

One of the assumptions, pertaining to human capital<sup>2</sup>, contributing to the wage equation suggests that the effect of human capital on wages shares a similar concave-shaped pattern as the wage earnings profile due to decreasing marginal rates of return over time (Brown, 1989). Including quadratic specification (squared terms) for the human capital variables age, tenure, experience and education, in the empirical model accounts for the assumed curvilinear effects in the human capital earnings function. Therefore, the general form of the model is:

$$\text{LnCompensation}_t = f\{\text{Human Capital}_{t-1}, \text{Personal Characteristics}_{t-1}, \\ \text{Organizational Elements}_{t-1}, \text{Market Factors}_{t-1}, \text{Principal-} \\ \text{Agent Factors}_{t-1}\}$$

Previous nonprofit executive compensation research (Baber, Daniels, and Roberts, 2002; Ruhm and Borkowski, 2003) assume an additive relationship between the independent variables. Therefore, the additive specification for the general empirical model is a multiple linear regression of the form:<sup>3</sup>

$$\text{LnCompensation}_{2008} = \beta_0 + \beta_1 \text{Education}_{2007} + \beta_2 \text{Education squared}_{2007} + \\ \beta_3 \text{Tenure}_{2007} + \beta_4 \text{Tenure squared}_{2007} + \beta_5 \text{Years of service}_{2007} + \\ \beta_6 \text{Years of service squared}_{2007} + \beta_7 \text{Ordained} + \beta_8 \text{Age}_{2007} +$$

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<sup>2</sup> Some researchers (Murphy, 1990) include age as part of human capital since age may serve as a proxy measure for experience. However, in this study, age is described as a personal characteristic. Empirically, age is treated with the addition of a squared term like the human capital variables.

<sup>3</sup> See Table B2 for a description of the variables and their measures.



$$\begin{aligned}
& \beta_9 \text{Age squared}_{2007} + \beta_{10} \text{Female} + \beta_{11} \text{Black} + \beta_{12} \text{Other race} + \\
& \beta_{13} \text{Married} + \beta_{14} \ln \text{Membership}_{2007} + \beta_{15} \ln \text{Net Assets}_{2007} + \beta_{16} \text{Clergy} \\
& \text{staff expense}_{2007} + \beta_{17} \ln \text{Lay staff expense percentage}_{2007} + \\
& \beta_{18} \text{Competition}_{2007} + \beta_{19} \text{Urban location} + \beta_{20} \text{Suburban location} + \\
& \beta_{21} \ln \text{Worship attendance}_{2007} + \beta_{22} \text{Program expense}_{2007} + \\
& \beta_{23} \ln \text{Apportionments paid}_{2007} + \varepsilon
\end{aligned}$$

### 3.1 Hypotheses

The first set of hypotheses relates to the agency relationship. The agency relationship variables reflect the mission-related aims of the denomination and the congregation respectively. The primary mission of the congregation is to maximize faith adherents. Programmatic ministry and mission outside the confines of the church is also a part of the work of many churches. The congregational mission is measured by using worship attendance figures and program expenditures. Higher salaries, holding other variables constant, are anticipated when pastors work to achieve the local church's mission.

The mission-related goal of the denomination is to maximize apportionment dollars (franchise fees / taxes) from the local churches. The apportionments are calculated as a percentage of church total expenses (as indicated on the end of year report) excluding capital expenses and programmatic ministry funds for self-supporting ministries. The measure for the achievement of denominational aims is the amount of

money paid in apportionments. In light of the agency relationship existing between clergy and the respective congregation and the denomination, several hypotheses follow:<sup>4</sup>

Hypothesis 1: *Ministerial wages will increase as clergy meet the mission-related aims of the local church, measured by worship attendance and program expense.*

Hypothesis 2: *Increases in the denominational mission variable, as measured by the amount of money paid in apportionments, will increase executive clergy wages.*

The next set of hypotheses relates to congregational factors or organizational elements. Under organizational elements, church membership, which measures organizational size, and net assets, which measures fiscal health, are applied as control variables. Managerial scope describes the elements embodied in administering the organization such as span of management and job complexity. The expenses associated with compensating lay staff (as a percentage of total expenses) and the amount expended for compensating associate ministers measures managerial scope since some ministers supervise laity or other clergy as a part of their job portfolio. The organizational element hypotheses are:

Hypothesis 3: *Organizational size, as measured by church membership, is positively associated with clergy salaries.*

Hypothesis 4: *Financially healthy congregations, as measured by net assets, will pay their ministers more than their counterparts.*

Hypothesis 5: *An increase in the clergy staff expense, exclusive of the senior pastor's salary, will increase clergy salaries.*

Hypothesis 6: *Executive clergy wages increase as the lay staff expense percentage, as measured by the amount of money expended on lay staff divided by total expenses, increases.*

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<sup>4</sup> The research hypotheses are stated in terms of defining relationships when all other variables are held constant.

The human capital variables are: experience, education, tenure, and a dichotomous variable ordination. The personal characteristic variables are: age, race, gender, and marital status, a dichotomous variable. Under human capital and personal characteristics, this investigation adds two additional determinants not found in the empirical literature, marital status and ordination. How do clergy benefit from being married? Congregations may be willing to pay a premium to a clergyperson who can potentially attract young families. Additionally, the spouse may be expected to take on volunteer duties.

This study also suggests that conference relationship, as defined by ordination status, stratifies the clergy labor market. The upper-stratum is comprised of clergy who are ordained members of the North Georgia Annual Conference of the United Methodist Church. Ordination, which culminates the process of credentialing, bestows upon clergy voting rights within the annual conference and guaranteed employment similar to tenure in an academic setting. The lower-stratum is constituted by non-ordained clergy and clergy who may hold ordination in other denominations or other Annual Conferences. There is no empiricism suggesting that ordained clergy demonstrate increased job productivity. Ordination benefits clergy by moving them into an elite group within the Annual Conference. The expected effect on clergy salary from human capital and personal characteristics follows:

Hypothesis 7: *Increases in human capital, as measured by tenure, education, job experience, and ordination status will result in an increase in clergy salary.*

Hypothesis 8: *Personal characteristics, as measured by age and being married, are positively associated with ministerial pay.*

Hypothesis 9: *Personal characteristics, as measured by being non-white and*

*female, are negatively associated with executive clergy wages.*

The present research also includes control variables representing the religious and clergy labor markets as seen in Trawick and Lile (2007). The measure for the religious market competition is the number of Christian denominated churches in a county. The clergy market variables are the dichotomous variables urban and suburban indicating the location of a church assignment. The market hypotheses are:

Hypothesis 10: *Religious market competition will have no significant effect on clergy salaries.*

Hypothesis 11: *Serving in an urban setting will result in comparably higher clergy salaries.*

This investigation also suggests that within the market strata established through ordination, there will be different determinants depending upon which stratum is investigated.

Hypothesis 12: *The market strata, as defined by conference relationship through ordination, will determine salary level for ministers. The higher a minister's conference relationship, the more she/he will make in compensation.*

Hypothesis 13: *The determinants of clergy compensation are strata specific. There will be different factors determining clergy salaries for different strata.*

### **3.2 Data Description and Limitations**

The data for the present study come from several sources. The church level data come from the end of year reports of the local churches of the North Georgia Annual Conference of the United Methodist Church for the years 2008 and 2007. The Conference is comprised of over 1000 churches, 320,000 lay members, and 1500 clergy (North Georgia Conference, The United Methodist Church, 2010). Local churches are

required to file an annual report that includes information that describes the congregations demographically and financially.

### Districts of the North Georgia Annual Conference



<http://www.ngumc.org/pages/detail/785> accessed on 2/1/2010

Figure 3.2 Districts of the North Georgia Annual Conference

The geographic bounds of the conference are illustrated in Figure 3.2. The conference, located in the northern part of Georgia, is comprised of twelve districts covering seventy counties spanning from the Alabama state line in the west to the South Carolina border in the east and Tennessee in the north. Because the current study focuses only on the salaries of pastors of local churches, the sample is restricted to clergy who served as the lead pastor in 2007. Clergy who did not serve churches are omitted. In

keeping with the analogy of the lead pastor as a nonprofit executive, associate ministers are not included in the investigation.

Many studies on nonprofit executive compensation use the IRS 990 data found in the National Nonprofit Research Database from the National Center for Charitable Statistics. The organizational data in the present research is unique in that it addresses a limitation found in the NCCS data. Frumkin and Keating (2001) note that the coded data files from NCCS do not have labels to distinguish salaries of the executive directors from other senior staff. As a result, researchers some times assume that the highest salary corresponds to the executive director. The dataset used here specifically identifies the senior executive's compensation.

Table B.3 (Appendix B) summarizes the organizational and individual data. The organizational data set includes 792 churches or charges. In cases where a number of smaller churches have the same pastor the grouping of churches constitutes a church charge. One of the purposes in clustering churches is to constitute an appointment that meets the minimum salary guidelines for clergy. After extensive cleaning to eliminate churches with no members and pastors with no salary, there are 568 usable observations.<sup>5</sup>

The average number of members in 2007 was 440 with an average weekly worship attendance of 167 congregants. Clergy total compensation is comprised of a base salary plus housing allowance, reimbursable cash allowance, and other cash allowances (North Georgia Annual Conference, The United Methodist Church, 2007). The mean clergy total compensation is \$45,728.50. The average net assets for the churches is \$2.3 million.

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<sup>5</sup> Due to the limited number of observations for the education variable, when education is included there are only 418 observations.

A data set developed by the U.S. Department of Agriculture was used to establish a set of dichotomous variables (urban/suburban/rural) for the seventy counties that comprise the North Georgia Conference that may reflect differentials in the cost of living. A market competition variable, which represents the number of competing churches in a geographic area, was created by counting the number of churches in each county.

The individual level data set, provided by the Office of Data Services of the North Georgia Annual Conference, describes the clergy leaders' personal characteristics. The data include the clergy demographic characteristics gender, age, race, marital status, ordination status, and conference relationship.

Each clergy person bears a particular relationship to the Annual Conference based on North Georgia and United Methodist ordination status as seen in Table 3.1. There are both ordained and non-ordained persons serving churches. The highest level in the ordained ranks is Full Connection with two categories, Elder in Full Connection and Deacon in Full Connection. Provisional members are those seeking admission to the conference aspiring to be ordained members in Full Connection. Clergy may serve in an active or retired relationship. Non-ordained persons include seminary students and local pastors who may serve on a part-time or full-time basis. Additionally, there are persons from denominations outside of the United Methodist Church, both ordained and non-ordained, serving churches as they seek a transfer into the United Methodist clergy ranks and admission to the North Georgia Conference.

Table 3.1  
Conference Relationship Categories

Clergy Classifications	Frequency	Percentage
Associate Member	6	.80
Deacon in Full Connection*	1	.94
Elder in Full Connection*	407	54.48
Full-time Local Pastor	28	3.75
Other Local Pastor	1	.13
Associate Member of Other Annual Conference	0	0.00
Elder Member of Other Annual Conference	13	1.74
Full Member of Other Denomination	15	2.01
Provisional Member of Other Annual Conference	1	.13
Provisional Elder*	37	4.95
Part-time Local Pastor	215	28.78
Student from other Annual Conference/Denomination serving as a Local Pastor	4	.54
Supply Pastor	19	2.54
Total	747	100.00

\*Indicates Full Connection and Full Connection track

In order to acquire educational information, a survey was distributed to the clergy members of the North Georgia Annual Conference who were serving as lead pastors in churches in 2007. Individual clergy were contacted via phone and in person as follow-up to the survey request.

The data have limitations. The population and the subsequent sample come from one denomination, The United Methodist Church, in one geographic area, North Georgia. Further, the data do not reveal the number of hours worked by any of the clergy.

In order to address the research question examining what factors contribute to clergy salary levels, the full clergy compensation model is applied to the population



sample and the hypotheses are tested. The next chapter provides the data analysis and the results of the model.

## **CHAPTER FOUR**

### **RESULTS OF THE MODEL**

This investigation addresses the research question: What are the determinants of clergy executive compensation. The following sections provide a description of the results and the analysis based on the previously stated research question and hypotheses using two models: an overall clergy compensation model and the stratified clergy labor market model (Dickens and Lang, 1988).<sup>6</sup>

#### **4.1 Hypothesis Testing**

Previously, this research proposed several hypotheses for testing the clergy compensation framework. The clergy compensation model suggests that the determinants of clergy compensation are: education, age, tenure, years of service as a Methodist minister, ordination status, competition, membership size, the worship ratio, net assets, the apportionment payment percentage, the lay staff expense percentage, the agency variable, and revenue concentration. The hypotheses are evaluated by examining both the sign and the significance of the independent variables. The following results are from hypotheses concerning the principal-agent or agency relationship.

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<sup>6</sup> Some of the variables exhibit curvilinear aspects. The curvilinear coefficient represents the marginal rates of change for the effect of the independent variables. When the independent variable's coefficient is positive and the coefficient on the squared term is negative, the impact of the independent variable is increasing at a decreasing rate. After the inflection point (peak), the influence of the independent variable decreases at an increasing rate. If the coefficient on the independent variable is negative and the squared term has a positive coefficient, the effect of the independent variable is decreasing at a decreasing rate, then after reaching a trough, increases at an increasing rate. Figures B1 – B4, in Appendix B, present the graphs for these variables and their inflection points. The graphs represent a bivariate relationship while the inflection points reflect the multivariate relationship with compensation. The peaks and troughs are calculated according to the formula  $-b_1/2b_2$  where  $b_1$  equals the coefficient on the linear term and  $b_2$  is the coefficient on the curvilinear or squared term. The effects on clergy compensation are interpreted around the predicted value (an estimate of the mean value) of salary when the independent variables have a particular value (Lewis, 2005).

#### 4.1.1Hypothesis One

Achieving the mission-related aims of the church will positively impact the wages of executive clergy according to hypothesis one. The worship attendance measure was significantly positive, while program expense was significantly negative in partial support of hypothesis one as seen in Table 4.1. A one percent increase in the number of worshippers corresponds to a .32% increase in ministerial wages. As the amount of money expended for ministry programs increases by one thousand dollars, clergy salary decreases by .091% suggesting a competition between dollars expended for wages and programmatic dollars.

Table 4.1  
Results of the Congregational Mission Test

Variable	Compensation Model
Average Worship Attendance 2007 (logged)	0.32*** (0.0430)
Program expense (per thousand \$)	-0.00091*** (0.00032)
Observations	418
R-squared	.84

Standard errors in parentheses  
\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

### 4.1.2 Hypothesis Two

In hypothesis two, this research suggests that clergy salaries are positively impacted by an increase in the denominational mission variable, as measured by the amount of funds paid in apportionments. Table 4.2 shows that a one percent increase in apportionment funds paid results in a .045% increase in clergy salary consistent with study expectations. These results illustrate that a clergyperson who successfully navigates the "dual agency" tension between the congregation and the denomination, benefits financially.

Table 4.2  
Results of the Denominational Mission Test

Variable	Compensation Model
Apportionments paid (\$) (logged)	0.045** (0.019)
Observations	418
R-squared	.84

Standard errors in parentheses  
\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

The next set of results comes from testing the impact of organizational elements on clergy wages.

### 4.1.3 Hypothesis Three

Hypothesis three predicts that the number of church members has a positive impact on ministerial wages. As seen in Table 4.3, a one percent increase in membership size is related to a salary increase of .072%. This result is consistent with the expectation in hypothesis three.

Table 4.3  
Results of the Organizational Size Test

Variable	Compensation Model
Church Membership (logged)	0.072* (0.0066)
Observations	418
R-squared	.84

Standard errors in parentheses  
\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

### 4.1.4 Hypothesis Four

As seen in Table 4.4, net assets is positive and significant supporting the hypothesis regarding financial health. The results suggest that wages increase by .12% when net assets increases by one percent.

Table 4.4  
Results of the Financial Health Test

Variable	Compensation Model
Net Assets (logged)	0.12*** (0.021)
Observations	418
R-squared	.84

Standard errors in parentheses  
\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

#### 4.1.5 Hypothesis Five

Managerial scope also impacts clergy compensation as suggested by hypotheses five through eight. A one thousand dollar increase in the amount expended to compensate clergy staff is associated with a .034% decrease in the wages of the lead minister as seen in Table 4.5. The decrease in salary, though small, suggests that additional clergy are not viewed as adding to the supervisory responsibility of a senior pastor, but rather as a co-laborer reducing the workload of the lead minister. Alternatively, the decrease reflects a competition between dollars for the salary of the lead minister and the salaries of associate ministers.

Table 4.5  
Results of Managerial Scope Test I

Variable	Compensation Model
Clergy staff expense (per thousand \$)	-0.00034 (0.00038)
Observations	418
R-squared	.84

Standard errors in parentheses  
\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

#### 4.1.6 Hypothesis Six

The lay staff percentage also positively impacts executive clergy wages. Table 4.6 illustrates that a one percentage point increase in the lay staff expense percentage corresponds to a 3.2% higher salary for clergy, in contrast to the effect of adding additional associate minister expenses. The result suggests that, within the church, supervising lay staff is associated with added managerial responsibility and is compensated accordingly.

Table 4.6  
Results of Managerial Scope Test II

Variable	Compensation Model
Lay staff expense percentage	0.032* (0.0195)
Observations	418
R-squared	.84

Standard errors in parentheses  
\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

#### 4.1.7 Hypothesis Seven

How does human capital impact the wages of ministers? Increases in certain human capital factors correspond to higher salaries according to hypothesis seven. The results in Table 4.7 provide partial support for hypothesis seven. An additional year of education corresponds to a 60% decrease in clergy wage. Due to the curvilinear behavior of education in this sample, where the effect of an additional year of education does not benefit clergy until 21 years, this result suggests that within an educated population additional education does not benefit an individual significantly until that individual's level of education clearly distinguishes that minister from other clergy.<sup>7</sup>

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<sup>7</sup> The inflection point for education is 20.6 years and the mean is 19.4 years. In an alternative specification of the model, omitting the variable ordained, education becomes positive but loses significance.



Table 4.7  
Results of Human Capital Test

Variable	Compensation Model
Education (years past high school)	-0.60*** (0.20)
Tenure 2007 (in present assignment)	0.032*** (0.010)
Years of service 2007 (as Methodist minister)	0.0060 (0.0053)
Ordination	0.68*** (0.14)
Observations	418
R-squared	.84

Standard errors in parentheses  
\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

Tenure in one's current assignment benefits clergy with a 3.2% increase in salary for each additional year up to 11.6 years. Ordination corresponds to a 68% increase in salary. Years of service, as a Methodist minister, has no significant impact on clergy salary in this sample.

#### 4.1.8 Hypothesis Eight

Hypothesis eight, which offers propositions regarding the effect of personal characteristics on clergy compensation, is partially supported by the empirical results. Age positively and significantly impacts executive clergy wages. An additional year of age is associated with a 3.3% increase in salary up to 43.7 years of age. Being married has no significant impact.

Table 4.8  
Results of Personal Characteristics Test I

Variable	Compensation Model
Age	0.033*** (0.011)
Marital status	-0.030 (0.043)
Observations	418
R-squared	.84

Standard errors in parentheses  
\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

#### 4.1.9 Hypothesis Nine

The results in Table 4.9 suggest that race and gender do not significantly impact clergy salary. The negative coefficients are merely suggestive. These results do not uphold hypothesis nine.

Table 4.9  
Results of Personal Characteristics Test II

Variable	Compensation Model
Black	-0.048 (0.041)
Other race	-0.036 (0.079)
Female	-0.018 (0.039)
Observations	418
R-squared	.84

Standard errors in parentheses  
\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

#### 4.1.10 Hypothesis Ten

The findings in Table 4.10 support hypothesis ten. Religious market competition has no significant impact on clergy wages. What explains the lack of significance? Churches may draw members from areas outside of their own county. Churches in the same county may not participate in the same religious marketplace.

Table 4.10  
Results of Religious Market Competition Test

Variable	Compensation Model
Competition	-0.0000097 (0.00015)
Observations	418
R-squared	.84

Standard errors in parentheses  
\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

#### 4.1.11 Hypothesis Eleven

The results in Table 4.11 suggest that clergy serving churches in urban settings make 11.2% more than their rural counterparts receive in wages. Serving a suburban church does not significantly affect clergy salaries. These results uphold hypothesis eleven.

Table 4.11  
Results of Clergy Labor Market Test

Variable	Compensation Model
Urban	0.11** (0.046)
Suburban	0.019 (0.040)
Observations	418
R-squared	.84

Standard errors in parentheses  
\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

#### **4.1.12 Hypothesis Twelve**

Hypothesis twelve proposes that ordination stratifies the labor market where the higher the ordination status, the higher the salary. The conference relationship, as measured by ordination, positively and significantly impacts clergy compensation as seen in Table 4.7 where ordained ministerial wages are 68% higher than the wages of comparable non-ordained ministers.

#### **4.1.13 Hypothesis Thirteen**

Hypothesis thirteen is tested by a set of comparative models. The first model represents the clergy compensation model applied only to upper-stratum clergy (persons

who are ordained members of the North Georgia Annual Conference). Lower-stratum clergy (persons who are serving as pastors but are not ordained members of the North Georgia Annual Conference) in the sample are examined in the second model. Regrettably, due to the lack of availability of data, education is removed from the previous model used for testing hypotheses one through twelve.

Table 4.12  
Determinants of Clergy Executive Compensation Ordained vs. Non-ordained Clergy<sup>8</sup>

Significant Variables	Upper-Stratum Clergy Model	Lower-Stratum Clergy Model
Tenure	0.029*** (0.011)	
Years of Service 2007	0.012** (0.0055)	
Ordained		
Age	0.036*** (0.013)	
Black		
Average Membership 2007 (logged)	0.13*** (0.046)	0.17* (0.088)
Net Assets (logged)	0.040*** (0.011)	
Lay Staff Expense Percentage	0.046** (0.02)	
Urban Location	0.12** (0.047)	
Average Worship Attendance (logged)	0.31*** (0.045)	0.28*** (0.098)
Program Expense (per thousand \$)	-0.0010*** (0.00034)	
Amount of Apportionments (\$) (logged)		0.23*** (0.61)
Observations	413	155
R-squared	0.82	0.63

Standard errors in parentheses  
\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

<sup>8</sup> The full results of the comparison model are found in Figure B.6 in Appendix B.

Hypothesis thirteen is confirmed in the results found in Table 4.12 which summarizes the significant variables identified by the regression analysis that determine clergy compensation levels in each model. In addition to assuming clergy function in a stratified labor market, hypothesis thirteen proposes that the determinants of clergy compensation are dependent on the stratum level in which a clergyperson functions. In other words, variables that demonstrate influence when applied to ordained clergy may not exhibit the same type of influence for non-ordained clergy.

Hypothesis thirteen is further tested by using interaction terms with the dichotomous variable ordained to determine if the variables applied in the ordained clergy model, have the same effect when applied to non-ordained ministers. Interaction terms for each of the independent variables are created then executed using the test command in Stata. The results in Table 4.13 show how ordination affects the other independent variables.<sup>9</sup> The coefficients on the interaction terms are interpreted as the difference of differences where the independent variable impacts clergy wages by an additional (or reduced) amount by virtue of ordination.

Significant differences are exhibited for tenure, age, and the amount of apportionments paid in the interaction terms model. An additional year of tenure benefits ordained clergy by 6.5% more than non-ordained clergy. The wages of ordained clergy increase by 5.2% more than the wages of non-ordained clergy with an additional year of age. Paying apportionments benefits lower-stratum clergy more than ministers in the upper-stratum. Ordained clergy receive .20% less in wages than non-ordained clergy receive when associated with a one percent increase in the amount of apportionments paid.

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<sup>9</sup> The full results of the interaction model are exhibited in Figure B7 in Appendix B.

Table 4.13  
Results of the Interaction Terms Test

Variable	Compensation Model
Tenure	0.065*** (0.022)
Tenure squared	-0.0029*** (0.0011)
Years of Service	-0.0171 0.017
Years of Service squared	0.00071 0.00052
Age	0.052** (0.020)
Age squared	-0.00056*** (0.00020)
Female	0.024 0.084
Black	0.11 0.094
Other race	-0.14 (0.246)
Married	-0.12 0.097
Membership (logged)	-0.042 0.085
Net Assets	0.019 0.050
Clergy Staff Expense (per thousand \$)	-0.012 0.017
Lay Staff Expense Percentage	0.0060 0.040
Competition	0.000536 0.00046
Urban	0.081 0.10

Standard errors in parentheses  
\*\*\* p<0.01, \*\* p<0.05, \* p<0.1



Table 4.13  
Results of the Interaction Terms Test (continued)

Suburban	0.12 (0.0933)
Worship Attendance (logged)	0.028 0.091
Program Expense (per thousand \$)	0.0039 0.0086
Amount of Apportionment Paid (logged)	-0.20*** (0.052)
Observations	568
R-squared	.86

Standard errors in parentheses  
\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

The summary of the comparative model is as follows:

#### **4.1.14 Human Capital Effects**

Tenure only benefits upper-stratum clergy, where an additional year of tenure corresponds to a 2.9% increase in salary. Ordained clergy are positively impacted by additional years of experience. Upper-stratum clergy wages increase by 1.2% with an additional year of experience.

#### **4.1.15 Personal Characteristics Effects**

Age also benefits the upper-stratum clergy. Ministerial wages increase by 2.3% as age increases by one year for ordained clergy.

#### **4.1.16 Religious Market Effects**

Religious market competition has no significant impact on clergy salaries in either of the models.

#### **4.1.17 Clergy Labor Market Effects**

Upper-stratum clergy benefit from serving in an urban setting. Serving a church in an urban location is associated with a 12% increase in wages compared to clergy serving in rural areas. A plausible explanation for the higher wage is that ordained clergy are more likely to serve larger and wealthier congregations located in urban areas

#### **4.1.18 Organizational Elements Effects**

Membership size is positively significant in both models. When membership increases by one percent, ordained clergy experience a .13% wage benefit. Non-ordained clergy increase their salaries by .17% when associated with a membership increase of one percent.

Net assets is positively significant for ordained clergy. A one percent increase in net assets is related to a .10% increase in salary for upper-stratum clergy. These results suggest that clergy would have to demonstrate significant financial managerial acumen to receive a higher wage illustrating the difference between for-profit and non-profit reward systems.

As the lay staff expense percentage increases by one percentage point, ordained clergy experience a 4.6% salary increase.

#### **4.1.19 Principal-Agent Effects**

In both models, worship attendance demonstrates a significant positive impact. A .31% wage increase for ordained clergy is associated with a one percent increase in worship attendance. Non-ordained clergy receive a wage increase of .31% when worship attendance increases by one percent. Program expense is negatively significant in the first model where upper-stratum clergy experience a .10% decrease in wages as the

programmatic expenditures increase by one thousand dollars. A one percent increase in the amount paid in apportionments is associated with a .23% wage increase for lower stratum clergy.

## **4.2 Summary**

The results of the analysis move us closer toward a theory of clergy executive compensation. What are the determinants of clergy executive compensation according to the analysis? The results suggest that the determinants of ministerial wages are: education, tenure, conference relationship as measured by ordination, age, membership size, net assets, lay staff expenses, urban location, worship attendance, program expenses, and the amount paid in apportionments.

Ministers operate within a dual agency tension between the denomination and the local church. While the worship attendance and program expenditures represents attaining the goals of the local church, this research assumes that faithfulness in paying apportionments exemplifies satisfying the preferences of the denomination. The analysis shows that clergy who can accomplish both the mission-related aims of the local congregation and the denominational hierarchy will benefit financially.

Ordination status is an integral determinant not found in previous studies and accounts significantly for the differences. Ordination stratifies the labor market distinguishing ordained clergy from their counterparts. Ordination signals commitment to the denomination. Ordination is rewarded because clergy have agreed to restrict their opportunities to the monopsony of the denomination rather than competing against the denomination by exiting to work for a competing denomination or starting their own church.

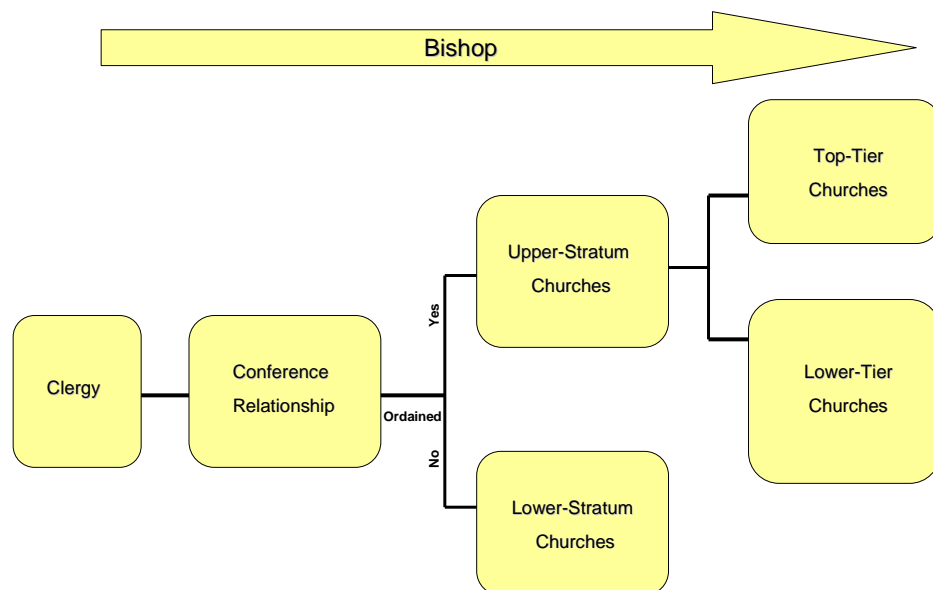
The determinants of executive wages for ordained clergy are: tenure experience, membership size, net assets, lay staff percentage, urban location, worship attendance, and program expense. While the factors that contribute to clergy compensation for non-ordained ministers are: membership size, worship attendance, and the amount paid in apportionments. The determinants for ordained clergy are more closely aligned to the clergy compensation framework proposed in this study which takes into account factors omitted from previous nonprofit compensation research (e.g. labor markets). In contrast, the elements that contribute to the wages of non-ordained clergy are similar to the factors from previous non-profit executive compensation literature, size, and mission.

## CHAPTER FIVE

### CLERGY COMPENSATION THEORY, DISCUSSION, AND CONCLUSION

#### 5.1 United Methodist Clergy Appointment System

Clergy executive compensation in the present study is understood by applying a variant of principal-agent theory, dual agency, where United Methodist clergy are agents of two principals, the bishop, as representative of the denomination, and the local church. As dual agents, ministerial leaders are compelled to fulfill the mission-related objectives of both the local church and the denomination. Figure 5.1 illustrates the elements in the appointive process that contribute to job placement and the associated salary.



Harvey (2010)

Figure 5.1 United Methodist Appointment Diagram

The bishop receives information on the labor pool and the available church assignments annually from the district superintendents who serve as supervisors for the clergy. The information regarding the clergy labor pool comes from the individual characteristics of the minister, the organizational factors from the present assignment, the market for clergy placement in terms of the next assignment, and the clergy's performance as informed by their annual evaluation.

The bishop appoints clergy to churches according to the Equitable Compensation guidelines adopted each year by each Annual Conference. The recommendations create a floor for clergy salaries according to their conference relationship as defined by ordination status. The policies, as illustrated in Figure 5.1, also serve to create a system of internal labor markets, through segmentation and stratification, where all clergy do not compete equally with all other clergy in an annual conference, as suggested by the present study. Dual labor market theory proposes that even within primary sector jobs, those jobs that pay the most and afford opportunities for advancement and job satisfaction, further stratification may be present (Kalleberg and Sørensen, 1979).

Salary guidelines from the Annual Conference are viewed more as suggestions than binding agreements. After the initial appointment to a church, the Staff Parish Relations Committee determines the clergy salary which then receives approval by the governing board or church council (Olsen, 2008).

The Staff Parish Relations Committee is a committee within the local church responsible for interpreting the mission and ministry of the United Methodist Church to the local church body. In addition, the committee functions as a human resources department that provides oversight for recruiting, evaluating, retaining, and releasing lay

staff. The Staff Parish Relations committee is also the group that evaluates clergy and makes recommendations regarding reappointment (retention) or reassignment (release). Because clergy are appointed for terms of only one year, the dual agency relationship creates a dyadic tension.

## **5.2 Discussion and Conclusion**

This research began by challenging the notion that churches are uniquely dissimilar to other organizations. In spite of their roots in religiosity, sectarian organizations are in many ways analogous to firms that function in a given market and seek to achieve their stated aims. In the present study, churches are characterized as mission-maximizing nonprofits operating in a religious market. As such, previous research in organizational theory, labor market economics, and nonprofit studies are appropriate when applied to churches and their clergy leadership in advancing a theory of clergy executive compensation. After applying the clergy compensation framework, this investigation found that clergy salaries are influenced in part by personal characteristics, human capital, organizational elements, labor market factors, and clergy performance. The present research adds to the nonprofit executive compensation literature by empirically testing for "dual agency", labor market stratification, and managerial scope.

Although there are several caveats before one attempts to generalize the results of the study to other denominations besides the United Methodist Church, this study makes an important contribution in understanding the determinants of clergy wages. Further, this research provides insights into the development of a general theory of clergy executive compensation by employing the Clergy Compensation Framework (CCF).

As a framework, the CCF contributes several useful elements to theory development. The CCF identifies individual decision makers as the actors requiring a cogent theory of clergy compensation to clearly define the assumptions behind human behavior and decision-making.

The CCF also provides an opportunity to examine clergy compensation from the perspective of several units of analysis. An analyst can study individual clergy, the local church, or the denomination as the unit of analysis. If there are research questions, relating to clergy compensation that involve religious markets or the clergy labor markets as the units of analysis, the CCF provides for such inquiry as well.

The scope of the CCF extends beyond the religious context. The framework has applications in studying nonprofit executive compensation because the market for executive labor and the competitive market between organizations have been previously omitted from studies on the salaries of nonprofit managers. Further, the framework may be used to examine the salaries of nonprofit executives in federated and franchise relationships.

### **5.3 The Theory**

The degree to which clergy, as agents, achieve the aims of their principal, the church and/or denomination, is the main avenue through which we can understand what factors influence clergy salaries. Denominational churches achieve their goals through a hierarchical relationship suggestive of a nonprofit franchise. The franchise / hierarchical arrangement places clergy in a "dual agency" tension. Clergy affiliated with hierarchical denominations operate as dual agents because they serve two principals, the



congregation, and the denomination. If clergy are in autonomous churches, the local church is the sole principal.

Ordination stratifies the labor market differentiating clergy from their non-ordained colleagues. Further, ordination functions as a signal of commitment to the denomination and legitimacy to the laity resulting in financial benefit to ministers. Clergy are also rewarded on the basis of managerial scope, where they receive higher wages as compensation for their assumed managerial acumen and responsibility.

This research can also apply to churches outside of the United Methodist Church as they seek to explain the variance in clergy salaries within their denomination. Principal-agent theory can be applied to churches where the clergy are the agents and the local church is the sole principal.

This study recognizes that clergy operate in a labor market. Churches without a hierarchy have a labor market that is comparatively more competitive. The present research suggests that within the more autonomous denominations there may also be market stratification on the basis of some attribute that differentiates clergy from one another and signals commitment. For example, as mentioned previously, Perl and Chang (2000) suggest that education stratifies the clergy labor market for female clergy.

At some point, churches engage in salary negotiations with their clergy. The loci for the dialogue are religious production and labor supply. When one asks how much should we pay the preacher, the underlying questions are: 1) What does the preacher produce that is worthy of receiving compensation; 2) Can we get the same product more cheaply; and 3) Can we afford the services of a minister?

Religious production is similar to much of nonprofit production in that many of its benefits are difficult to evaluate because they are intangibles. For the preacher, the intangibility challenge is exacerbated by the fact that most congregants do not observe what preachers actually do outside of the worship event (McMillan, 2002).

Salary, in many ways, is a measure of value where a higher salary is associated with more value. Unfortunately, the services provided by clergy are not valued as highly as comparable professionals with the same level of education (Hudnut-Beumler, 1999).

Bonifield and Mills (1980) compare wage-setting for clergy to wage-setting in the public sector. In their estimation, salary is a residual determined by the difference in anticipated revenues and expenses. Since the ministerial service is delivered as a free good, charges do not accrue directly to the users. Congregants benefit from the service whether they contribute financially (signaling value for the religious product) or withhold their donations, assuming there are no dues or membership fees.

The under-valuing of clergy by congregants is furthered by the availability of lower-priced substitutes. When clergy are perceived as having no distinct talent, salaries are low (Bonifield and Mills, 1980). As seen in our clergy sample, over a third of clergy serving as lead ministers are not Full Connection or Provisional Members of the North Georgia Annual Conference (non-ordained). It is difficult to argue that a clergyperson brings unique attributes to an appointment and is therefore, deserving of a higher wage when a number of churches are receiving, from their perspective, a similar product at a lower price.

Clergy in the 1960's were on par with other professionals financially. After the 1960's, religious leaders were no longer viewed as a part of the cultural elite (Hudnut-

Beumler, 1999). Chang and Bompadre (1999) suggest that alternative opportunities outside the church for males in the service sector drained the potential clergy labor pool of prime candidates. Clergy jobs, then, were lower in the job queue for men reflecting the loss of prestige (Reskin and Roos, 1990).

Since the prime candidates in the labor queue were in decline, secondary candidates (women) were given opportunities to fill the ranks of the clergy. Denominations had to choose between higher wages to attract their first choice or allow the market price to clear while admitting women.

Further, mainline Protestant churches have experienced a steady decline in membership (Chang and Bompadre, 1999; Chaves, 2002). Researchers suggest that it takes at least two hundred members to support a clergyperson full-time (Chang and Bompadre, 1999). The ratio of members-to-clergy has been decreasing. The decline in clergy status coincided with a decline in real income for ministers. The comparably lower wages and a lack of prestige have contributed to a crisis in the clergy labor supply for the local parish.

There is no lack of clergy (McMillan and Price, 2003). There is a dearth of clergy willing to serve the churches that are available, many of which have small memberships and are located in rural areas many of which lack the financial wherewithal to support a professional preacher (e.g. under the 200 member threshold) (Hudnut-Beumler, 1999; McMillan, 2003; Chaves, 2004). Chaves (2002) suggests that rural churches are particularly disadvantaged due to the lack of geographic mobility for both two-career families and older second-career persons entering the ministry. Further, more mature

persons who enter the ministry in mid-life may have higher salary requirements than their younger counterparts.

Pallotta (2008) would argue that as religious nonprofits, churches are paradigmatic of what he calls nonprofit ideology characterized by a "dysfunctional mentality based on deprivation." The nonprofit ideology expects religious leaders to provide a labor donation and accept lower wages. Oster (1998) confirmed the negative impact of religious affiliation when she noted that nonprofit executives who led organizations with a religious affiliation were penalized financially compared to their counterparts who led secular organizations. The church may have to re-think its preference for financial asceticism in order to attract quality leadership. Alternatively, one cannot discount the effects of non-pecuniary aspects of ministerial employment that dominate labor supply choices perhaps more than assumed in other markets.

#### **5.4 Policy Implications and Future Research**

Churches, as member-serving nonprofit organizations, are bearers of the public trust who receive benefits from their tax status (Chaves, 2002; Salamon, 2002). Receiving tax privileges places them in an arena of higher accountability. Policymakers seeking higher degrees of accountability will find this study helpful enabling them to be better informed about the complex nature of the church and the challenges in applying models from either the for-profit or nonprofit sector to the church without the appropriate cautions. Using this research, stakeholders can evaluate the degree to which congregations are public-serving, member-serving, or even pastor serving.

An additional implication for policy is the degree to which ordination mitigates gender and racial bias within the sample. Previous wage research suggests that ethnic

minorities and women will have lower salaries. However, neither the racial variables nor gender was significant in this investigation. Credentialing perhaps signals a more desirable candidate for employment and may serve to overcome certain biases.

Future research on clergy compensation would include a national sample of churches and clergy to determine if the present model is applicable to denominations besides the United Methodist Church. The national study might also include church boards to determine what criteria they use to evaluate and reward clergy. Additional survey work might include ascertaining the number of hours worked by the clergy and data as to their career paths both within and outside of the church. The data from their service within the church would assist in testing the dual agency hypothesis.

Figure 5.2 displays a proposed typology of the dual agency relationship for clergy in the United Methodist Church. Clergy must meet the aims of the local church (e.g. church growth) and the aims of the denomination (e.g. apportionment payments). A church that is dissatisfied with the pastor's performance can seek the removal of the pastor. Likewise, a bishop can move a pastor if the bishop determines that a move is in the best interest of the church, the pastor, or the Conference.

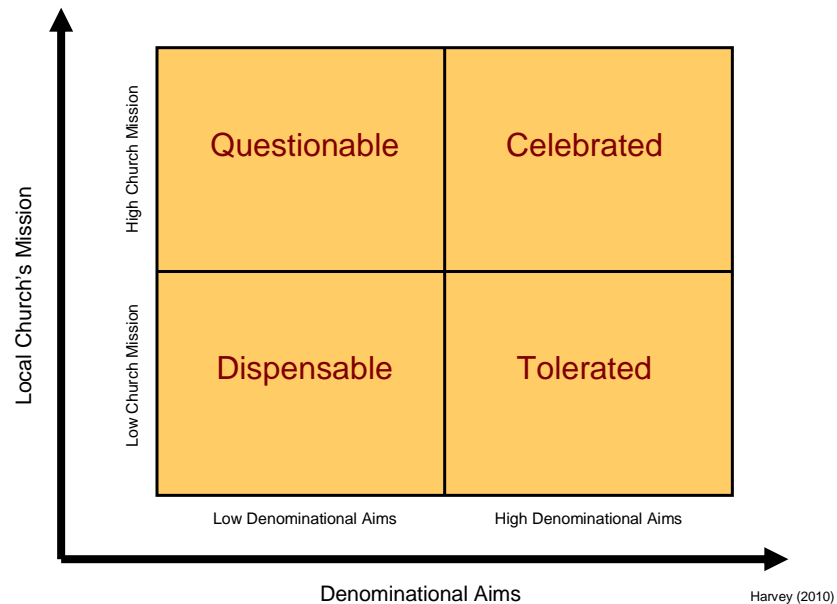


Figure 5.2 Dual Agency Appointment and Compensation Matrix

As mentioned previously, denominational churches are analogous to nonprofit federated/franchise systems (Oster, 1992; Young and Faulk, 2010). In order to increase apportionment receipts, bishops appoint franchise clergy, the “celebrated” in Figure 5.2. The celebrated clergy are those who demonstrate the ability to meet the aims of both the local church and the denomination. This research suggests that the celebrated clergy are also the more highly compensated clergy. The celebrated clergy are also analogous to those who receive primary sector jobs in segmented market theory (Kalleberg and Sørensen, 1979). An additional advantage to achieving celebrated status is that over time ministers may experience a shift in the monopsonistic relationship with the denomination so that the relationship reflects more of a bilateral monopoly (Althauser, 1989). In the present case, a bilateral monopoly means that the firm specific skills of the celebrated

clergy make them a valuable asset to the denomination because there are few readily available substitutes for the celebrated clergy. It is in the best interests of the clergy to remain with the denomination because other employers do not value their firm specific skills (Althauser, 1989).

The “dispensable” clergy are those who do not meet the aims of the local church or the denomination and are subject to frequent reassignment or must remain in assignments that pay less, consistent with the concept of secondary sector jobs (Kalleberg and Sørensen, 1979).

The “tolerated” clergy are the company clergy whose priority is to please the denomination while managing, as opposed to leading, the local church. The denomination/franchise will keep these clergy in place as long as the local church will tolerate them. These clergy are located in both upper-stratum and lower-stratum churches.

The “questionable” clergy serve the local church well but may not pay all of their apportionments/franchise fees. Whether this minister is reassigned or remains for an additional year is questionable. None of these categories is static. Since the clergy of the North Georgia Annual Conference are evaluated and appointed to churches each year, the designation may change as seen in Figure 5.3. Movement within the diagram is achieved by changes in achieving the mission-related goals of either the congregation or the denomination.

Celebrated ministers may become tolerated when they can not maintain growth in terms of congregational goals. They can become dispensable if they fail to achieve either

the denominational or the congregational aims. Questionable status is attained when the denominational goals are not met.

Ministers in the questionable category, whose churches begin to pay the apportionment or increase the payment amount, can move to celebrated status. A questionable minister who leads a church that continuously fails to pay receives the designation “dispensable.” She/he will be penalized with reassignment to a less prestigious appointment possibly with a lower salary.

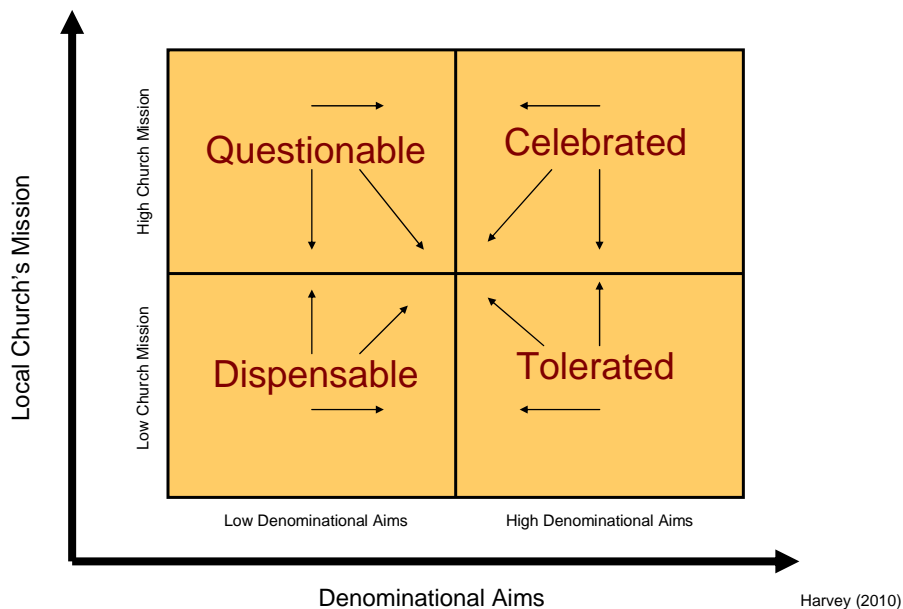


Figure 5.3 Dual Agency Dynamic Flow Diagram

Tolerated clergy can move to celebrated status by improvement in attaining the congregation's mission-related goal of increasing the number of faith-adherents. If they shift their focus and begin to meet the goal of the local church without maintaining the expected level of apportionment payments, these ministers may become questionable. If



tolerated ministers lapse in apportionment payments and can not achieve the local church growth aims, they may become dispensable.

Dispensable clergy may shift to tolerated as they increase the apportionment payment. They move to questionable status when they increase faith-adherents. If the dispensable ministers are able to achieve "dual agency" they can move to the celebrated category.

Future research would also include a mapping of the clergy into the typology. The mapping of the data into the quadrants would lend support to the proposed typology but would also provide a point of departure for predicting the placement of clergy into their respective assignments.

Churches, like other nonprofits, will continue to contend with the tension between the mission and the market as it relates to clergy wages. This research will be useful to church boards as they continue to struggle with questions of clergy compensation and its implications for recruitment, retention, and deployment by advancing questions about agency, the clergy labor market, and the role of credentialing as it relates to clergy wages. As donors gain a better understanding of the determinants of clergy compensation they are empowered to make better giving decisions regarding the utilization of their contributions. Both scholars and practitioners can benefit as they use this study as a point of departure for salary development guidelines as clergy seek to fulfill their callings and contribute to the Church's mission while providing for themselves and their families.

## APPENDIX A

### Clergy and Nonprofit Compensation Research Summary

Table A.1 Clergy Compensation Research Summary

Scholars	Model	Findings	Organization Type and Sample Size
*Perl and Chang (2000) *Not peer reviewed	Income is a function of educational level, seminary prestige, and denominational characteristics	Education benefits clergy financially in more theologically conservative denominations. Women benefit from seminary education more in denominations that do not require and M.Div. Seminary prestige is important under circumstances where congregations hire clergy directly.	Ordained Women and Men Study 1993-1994 Hartford Seminary N = 2541
*McMillan and Price (2001)	Ministerial salaries are related to church size and the clergy labor market.	Church size and geographic factors are key determinants.	N = 14998
*Graham (2007)	Clergy salary is related to gender. Female clergy positions are more likely to be in churches with fewer financial resources,	Gender gaps present in salaries. Fewer clergy are assigned to churches with fewer resources than their male counterparts.	Annual Conference Journals for Texas in 2006 N = 1000

Table A.1 Clergy Compensation Research Summary (continued)

Scholars	Model	Findings	Organization Type and Sample Size
Trawick and Lile (2007)	Clergy compensation is determined by religious market competition, denominational market share, county-level characteristics and congregational characteristics.	A less concentrated religious market results in a higher salary level as do the number of converts, mission-related outreach, funds availability, an older congregation, higher county population, and higher education of the populace. Urban congregations will pay less.	N = 13825
Zech (2007)	Human capital, performance, and promotion tournaments are the determinants for pastors' compensation.	Female clergy are paid less. Membership size, community size, and the number of clergy supervised positively affected clergy salaries. Performance is weakly significant. Denominational polity does not seem to have an effect.	N = 747

Table A.1 Clergy Compensation Research Summary (continued)

Scholars	Model	Findings	Organizational Type and Sample Size
Haney (2008)	Clergy compensation is determined by congregational factors, clergy individual characteristics, and denominational polity, and region.	Size (worship attendance) clergy education, experience, and congregational wealth matters. Hierarchical denominational pastors receive more in salary than their counterparts.	N = 425

Table A.2 Nonprofit Executive Compensation Research

Scholars	Model	Findings	Organization Type and Sample Size
Oster (1998)	Salary is a function of organizational size (assets), religious affiliation, gender of chief executive, percentage of income from private donors, and organizational type.	Organizational size, and religious affiliation significant at $p < .05$ positively affecting salaries.	Arts, Education, Environmental, Health Research, Hospital N = 95
	Salary is a function of organizational size (assets), religious affiliation, Princeton ratings, and endowment annual expenditure.	Organizational size significant at $p < .05$ positively affecting salaries.	Higher Education N = 57
	Salary is a function of organizational size (assets), religious affiliation, gender of chief executive, and percentage of income from private donors.	Organizational size, religious affiliation significant at $p < .05$ positively affecting salaries.	Social Services N = 78

Table A.2 Nonprofit Executive Compensation Research (continued)

Scholars	Model	Findings	Organization Type and Sample Size
Oster (1998)	Salary is a function of organizational size (assets), occupancy rate, and university affiliation.	Organizational size, university affiliation significant at $p < .05$ positively affecting salaries.	Hospitals N = 31
	Salary is a function of organizational size (assets), community vs. private foundation, family members on the board, and gender of chief executive.	Organizational size, family members on the board significant at $p < .05$ positively affecting salaries.	Foundations N = 45 Private foundations n = 33
	Changes in executive compensation are determined by changes in revenue and the program spending ratio and monitoring by an oversight agency.	Changes in revenue and changes in spending ratio significant at $p < .05$ positively affecting salaries.	Educational, Medical and Charitable Nonprofits N = 331
Hallock (2002)	Managerial pay is a function of firm size (assets), program expense ratio, grants plus public direct and indirect public support (fundraising), government grants	Firm size is strongly significant while program expense is weakly significant across particular NTEE categories. The number of board members is also significant reducing the salary of managers with the addition of board members.	N= 32,146 year-observations over five years.

Table A.2 Nonprofit Executive Compensation Research (continued)

Scholars	Model	Findings	Organization Type and Sample Size
Frumkin and Keating (2001)	Compensation is a function of total fixed assets, total program expenses, administrative efficiency (ratio of non-administrative expenses to total expenses), dollar growth in contributions, commercial revenues as a share of total revenues, the ratio of liquid assets to expenses, and endowments to total assets ratio.	Total fixed assets***, total program expenses**, commercial revenue share***, and endowments ratio* positively affecting salaries.	N = 15350
*Twombly and Gantz (2001)	Executive compensation related to size, activities, and reliance on different types of revenue, program service revenues, management, general and fundraising expenses.	NP executives at hospitals and higher ed are paid more, Larger NP's pay more, Hosp and High Ed likely to supplement income with benefits and deferred comp. Expense accounts and allowances are important supplements in faith-related NP's. Pay levels vary NP execs are paid relatively lower wages than FP executives.	N = 55,000



Table A.2 Nonprofit Executive Compensation Research (continued)

Scholars	Model	Findings	Organization Type and Sample Size
Gray and Benson (2003)	Executive compensation is a function of human capital factors (education and experience), firm size, organizational affiliation, gender, and organizational performance.	Human capital, organizational affiliation, firm size significant at $p < .10$ positively affecting salaries.	Nonprofit Small Business Development Centers, Small Business Administration N = 114
Krishnan, Yetman, and Yetman (2006)	Changes in executive compensation are determined by changes in revenue and the program spending ratio	Changes in revenue and the program spending ratio positively affect salaries.	Sample of Nonprofits N = 6826
*Twombly and Harvey (2007)	Executive compensation is directly related to financial performance measures.	Organizational size, age, and industry have a significant and positive relationship on nonprofit executive compensation. No evidence of a pay-for-performance link as measured by the financial indicators.	National Nonprofit Research Database (NNRD) N = 1045
Mesch and Rooney (2008)	Fundraiser compensation is directly related to the amount of funds raised.	There is a positive and significant link between pay and performance for fundraising professionals. A gender-wage gap exists.	Association of Fundraising Professionals Annual Compensation and Benefits Study N = 2439

## APPENDIX B

### Full Data Analysis Results

Table B.1 Correlation Statistics

	1	2	3	4	5	6	7	8
1. Compensation	1.00							
2. Education	0.36	1.00						
3. Education squared	0.36	1.00	1.00					
4. Tenure 2007	0.06	0.12	0.13	1.00				
5. Tenure squared	0.03	0.08	0.08	0.91	1.00			
6. Years of service in 2007	0.29	0.30	0.29	0.27	0.23	1.00		
7. Years of service squared	0.21	0.26	0.26	0.27	0.24	0.97	1.00	
8. Ordained	0.25	0.56	0.50	0.07	0.06	0.25	0.20	1.00
9. Age	-0.17	0.05	0.06	0.23	0.17	0.48	0.51	0.01
10. Age squared	-0.22	0.04	0.05	0.23	0.17	0.47	0.52	0.01
11. Female	-0.15	-0.09	-0.09	-0.12	-0.10	-0.28	-0.27	-0.07
12. Black	-0.07	0.02	0.03	0.06	0.04	-0.06	-0.10	-0.02
13. Other Race	-0.06	0.00	-0.01	0.03	0.03	-0.14	-0.12	-0.01
14. Married	0.08	0.02	0.02	0.09	0.07	0.11	0.11	0.06
15. Membership size	0.76	0.25	0.26	0.09	0.10	0.26	0.22	0.11
16. Net Assets	0.66	0.26	0.26	0.09	0.09	0.23	0.20	0.12
17. Clergy Staff Expense	0.71	0.27	0.28	0.19	0.20	0.25	0.23	0.08
18. Lay Staff Expense Percentage	0.53	0.26	0.25	-0.08	-0.11	0.10	0.02	0.26
19. Competition	0.21	0.12	0.12	0.07	0.04	0.02	0.01	0.06
20. Urban	0.27	0.14	0.14	0.13	0.10	0.10	0.08	0.09
21. Suburb	-0.13	-0.07	-0.07	-0.13	-0.12	-0.11	-0.10	-0.04
22. Worship attendance 2007	0.81	0.27	0.28	0.12	0.12	0.25	0.20	0.13
23. Program Expense	0.70	0.27	0.27	0.15	0.16	0.25	0.21	0.10
24. Apportionments	0.81	0.30	0.30	0.12	0.13	0.28	0.24	0.12

High correlation

Table B.1 (continued)

	9	10	11	12	13	14	15	16
1. Compensation								
2. Education								
3. Education squared								
4. Tenure 2007								
5. Tenure squared								
6. Years of service in 2007								
7. Years of service squared								
8. Ordained								
9. Age	1.00							
10. Age squared	0.99	1.00						
11. Female	-0.04	-0.06	1.00					
12. Black	0.02	0.00	0.09	1.00				
13. Other Race	-0.07	-0.06	-0.03	-0.07	1.00			
14. Married	0.02	0.02	-0.40	-0.21	0.04	1.00		
15. Membership size	-0.06	-0.08	-0.13	0.00	-0.03	0.09	1.00	
16. Net Assets	-0.03	-0.05	-0.05	-0.04	-0.04	0.07	0.56	1.00
17. Clergy Staff Expense	-0.01	-0.03	-0.12	-0.08	0.01	0.09	0.77	0.62
18. Lay Staff Expense Percentage	-0.18	-0.22	0.00	0.01	-0.09	0.02	0.30	0.32
19. Competition	0.00	-0.01	0.06	0.28	-0.01	-0.03	0.28	0.30
20. Urban	0.05	0.03	0.08	0.21	0.00	-0.09	0.25	0.26
21. Suburb	-0.17	-0.16	-0.05	-0.09	0.05	0.03	-0.13	-0.17
22. Worship attendance 2007	-0.09	-0.11	-0.15	-0.06	-0.01	0.11	0.92	0.56
23. Program Expense	-0.05	-0.08	-0.13	-0.10	0.03	0.10	0.82	0.54
24. Apportionments	-0.05	-0.08	-0.13	-0.11	-0.03	0.10	0.87	0.68

High correlation

Table B.1 (continued)

	17	18	19	20	21	22	23	24
1. Compensation								
2. Education								
3. Education squared								
4. Tenure 2007								
5. Tenure squared								
6. Years of service in 2007								
7. Years of service squared								
8. Ordained								
9. Age								
10. Age squared								
11. Female								
12. Black								
13. Other Race								
14. Married								
15. Membership size								
16. Net Assets								
17. Clergy Staff Expense	1.00							
18. Lay Staff Expense Percentage	0.20	1.00						
19. Competition	0.20	0.17	1.00					
20. Urban	0.23	0.21	0.63	1.00				
21. Suburb	-0.14	-0.05	-0.39	-0.69	1.00			
22. Worship attendance 2007	0.82	0.35	0.22	0.20	-0.09	1.00		
23. Program Expense	0.78	0.28	0.18	0.21	-0.12	0.87	1.00	
24. Apportionments	0.86	0.36	0.20	0.24	-0.13	0.91	0.89	1.00

High correlation

Table B.2 Variable Description Table

Variable	Variable Description
Age	Age in years of clergy in June of 2007
Education	Years of education in 2007
Tenure	The number of years in the present assignment
Experience	Years of service as a United Methodist minister
Female	Dichotomous variable identifying female clergy
Married	Dichotomous variable distinguishing married clergy
Ordained	Dichotomous variable specifying ordained ministers
Black	Dichotomous variable for black clergy
Other Race	Dichotomous variable differentiating clergy who are neither black nor white
Membership	Church membership in 2007
Net assets	Net assets in 2007
Clergy staff expense	The amount of money spent on clergy staff exclusive of the senior minister's wages in 2007
Lay staff expense percentage	The amount of money expended on lay staff as a percentage of total church expenditures in 2007
Competition	The number of Christian denominated churches located in the same county
Urban	Dichotomous variable specifying churches located in an urban area
Suburban	Dichotomous variable distinguishing churches located in a suburban area
Worship	The average worship attendance in 2007
Program expense	The amount of money expended for ministry programs in 2007
Apportionments paid	The amount of money spent towards the conference apportionment in 2007

Table B.3 Data Summary Statistics Full Model

<b>Variable</b>	<b>Observations</b>	<b>Mean</b>	<b>Minimum</b>	<b>Maximum</b>
Compensation	747	47500.84	1155.60	260604.20
Education	485	19.41	12.00	25.00
Education squared	485	379.52	144.00	625.00
Tenure	747	4.40	1.00	28.00
Tenure squared	747	34.86	1.00	784.00
Years of service	743	15.83	1.00	48.00
Years of service squared	743	386.36	1.00	2304.00
Ordained member of North Georgia	747	0.64	0.00	1.00
Age	747	54.13	23.00	83.00
Age squared	747	3052.22	529.00	6889.00
Female	747	0.18	0.00	1.00
Black	747	0.16	0.00	1.00
Other Race	747	0.03	0.00	1.00
Married	747	0.87	0.00	1.00
Membership size (logged)	747	5.31	1.10	9.21
Net Assets (logged \$)	739	13.99	10.46	17.58
Clergy staff expense	747	12.61	0.00	500.88
Lay staff expense percentage (logged)	586	-2.09	-5.87	1.19
Competition	747	123.99	18.00	424.00
Urban	747	0.37	0.00	1.00
Suburban	747	0.40	0.00	1.00
Worship attendance (logged)	747	4.49	1.61	8.05
Program Expense (thousands of \$)	747	21.40	0.00	700.00
Amount of apportionments paid (logged \$)	740	9.25	3.58	13.41

Table B.4 Data Summary Statistics Upper-Stratum

<b>Variable</b>	<b>Observations</b>	<b>Mean</b>	<b>Minimum</b>	<b>Maximum</b>
Compensation	475	62932.12	3466.80	260604.20
Tenure	475	4.38	1.00	28.00
Tenure squared	475	34.30	1.00	784.00
Years of service	475	20.29	1.00	48.00
Years of service squared	475	544.76	1.00	2304.00
Ordained member of North Georgia	475	1.00	1.00	1.00
Age	475	54.60	28.00	83.00
Age squared	475	3096.58	784.00	6889.00
Female	475	0.17	0.00	1.00
Black	475	0.14	0.00	1.00
Other Race	475	0.03	0.00	1.00
Married	475	0.88	0.00	1.00
Membership size (logged)	475	5.81	2.64	9.21
Net Assets (logged \$)	470	14.43	11.00	17.58
Clergy staff expense	475	19.75	0.00	500.88
Lay staff expense percentage	424	-1.91	-5.87	-0.60
Competition	475	136.40	18.00	424.00
Urban	475	0.44	0.00	1.00
Suburban	475	0.37	0.00	1.00
Worship attendance (logged)	475	4.91	2.08	8.05
Program Expense (thousands of \$)	475	32.31	0.00	700.00
Amount of apportionments paid (logged \$)	469	9.81	3.58	13.41



Table B.5 Data Summary Statistics Lower-Stratum

<b>Variable</b>	<b>Observations</b>	<b>Mean</b>	<b>Minimum</b>	<b>Maximum</b>
Compensation	272	20552.83	1155.60	56845.89
Tenure	272	4.45	1.00	28.00
Tenure squared	272	35.84	1.00	784.00
Years of service	268	7.93	1.00	36.00
Years of service squared	268	105.60	1.00	1296.00
Ordained member of North Georgia	272	0.00	0.00	0.00
Age	272	53.31	23.00	82.00
Age squared	272	2974.75	529.00	6724.00
Female	272	0.19	0.00	1.00
Black	272	0.18	0.00	1.00
Other Race	272	0.02	0.00	1.00
Married	272	0.86	0.00	1.00
Membership size (logged)	272	4.42	1.10	5.98
Net Assets (logged \$)	269	13.22	10.46	17.31
Clergy staff expense	272	0.14	0.00	16.20
Lay staff expense percentage	162	-2.56	-4.97	1.19
Competition	272	102.34	18.00	424.00
Urban	272	0.24	0.00	1.00
Suburban	272	0.47	0.00	1.00
Worship attendance (logged)	272	3.75	1.61	5.42
Program Expense (thousands of \$)	272	2.36	0.00	18.58
Amount of apportionments paid (logged \$)	271	8.28	4.60	10.03

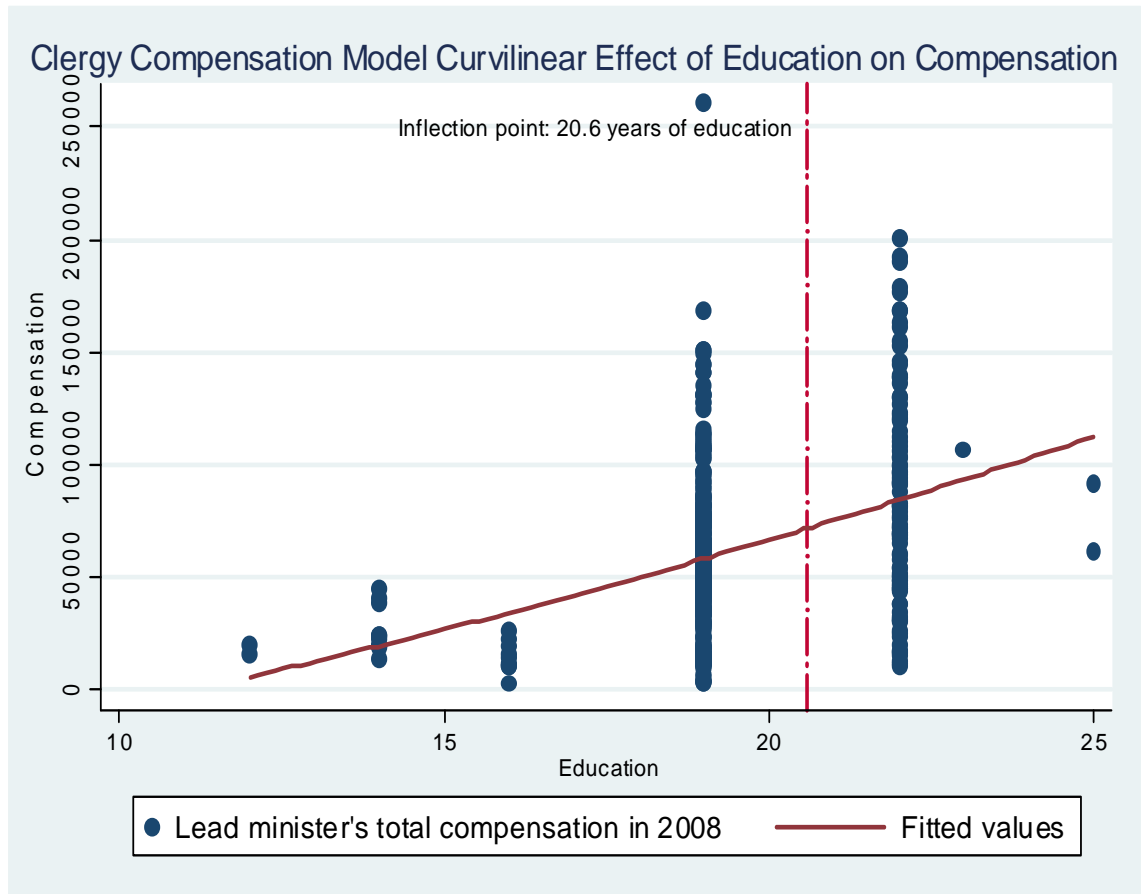


Figure B.1 Clergy Compensation Model Curvilinear Effect of Education on Compensation

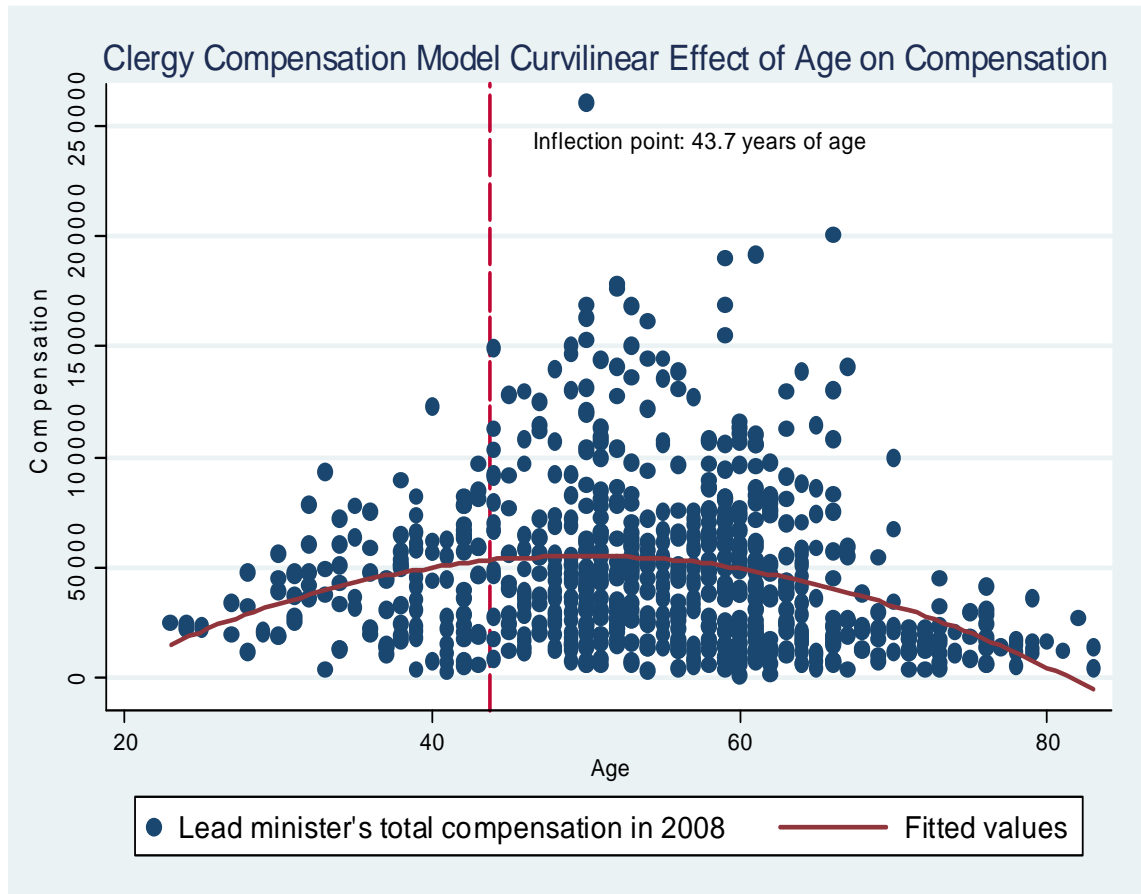


Figure B.2 Clergy Compensation Model Curvilinear Effect of Age on Compensation

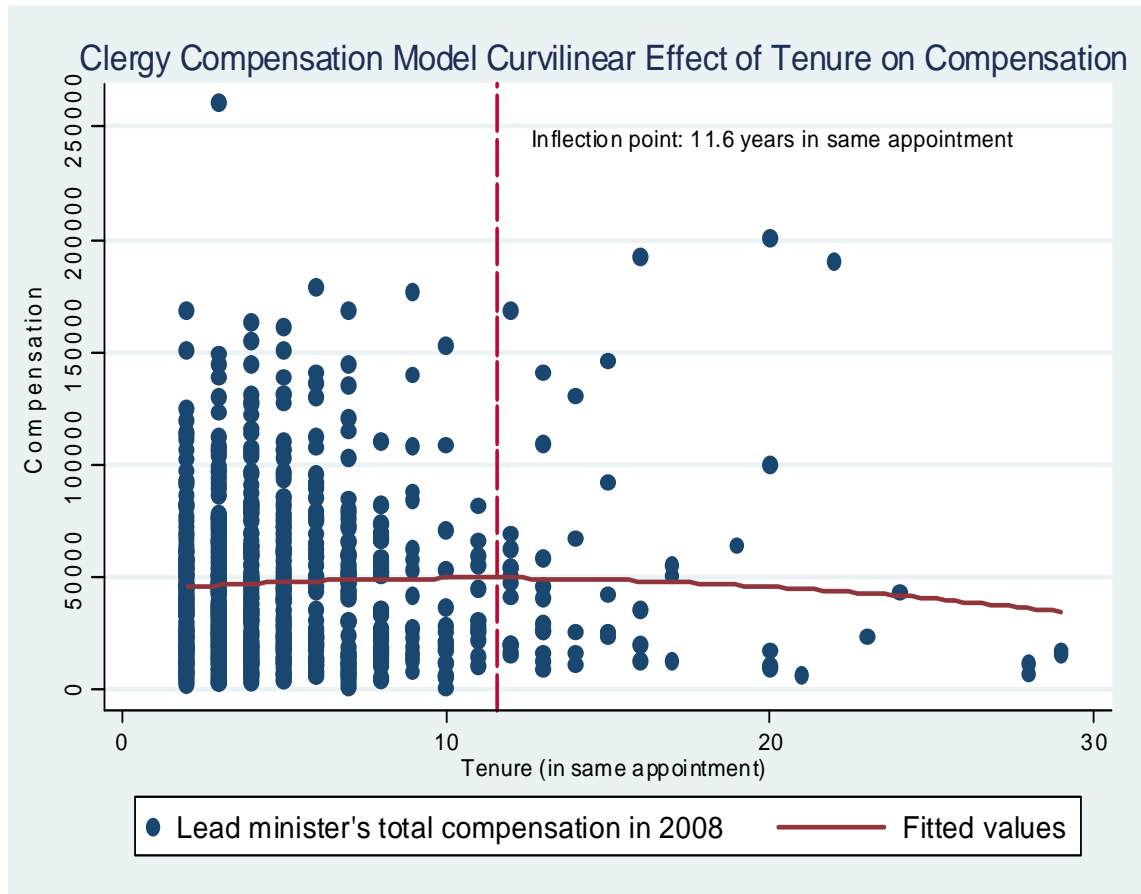


Figure B.3 Clergy Compensation Model Curvilinear Effect of Tenure on Compensation

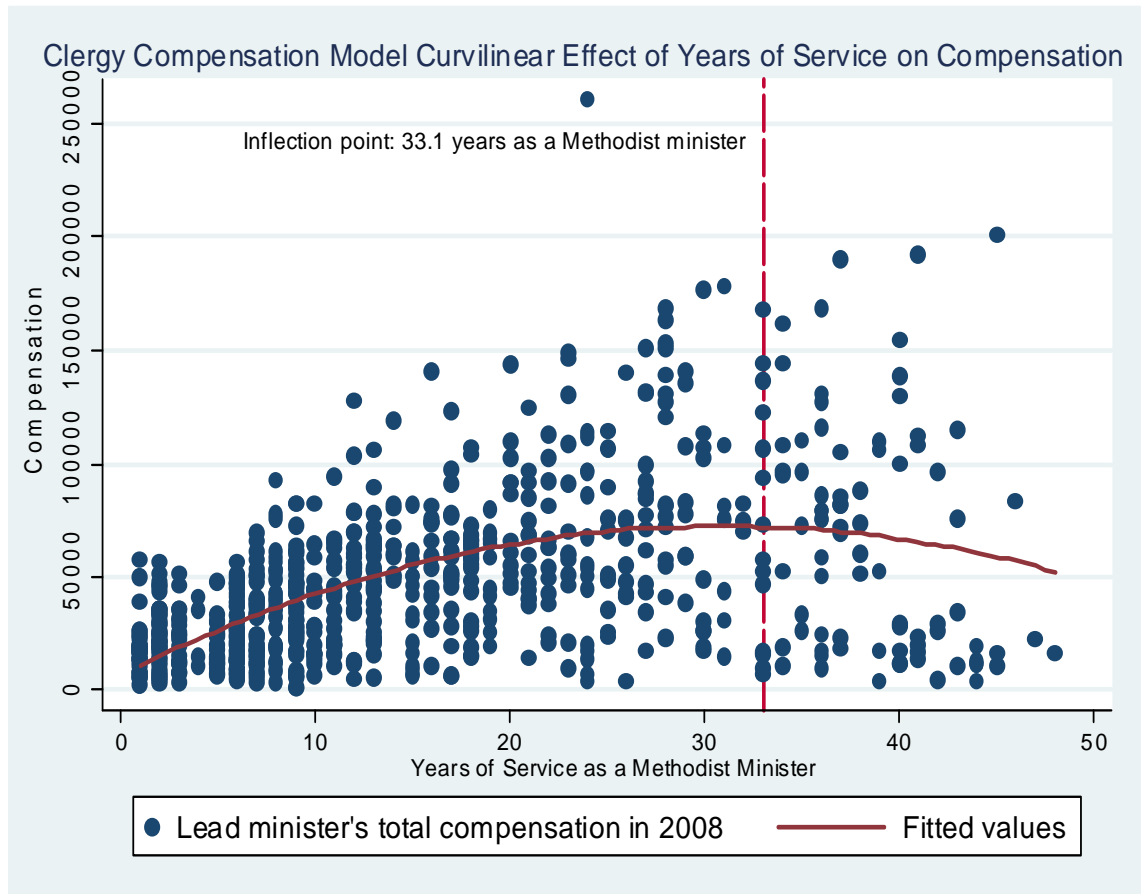


Figure B.4 Clergy Compensation Model Curvilinear Effect of Years of Service on Compensation

Table B.6 Comparison Model Determinants of Clergy Executive Compensation

Variables	Upper Stratum	Lower Stratum
Tenure	0.0287*** (0.0107)	-0.0365 (0.0242)
Tenure squared	-0.00121* (0.000642)	0.00172 (0.00106)
Years of Service	0.0120** (0.00545)	0.0291 (0.0202)
Years of Service squared	-0.000189 (0.000119)	-0.000901 (0.000668)
Ordained		
Age	0.0226** (0.0100)	-0.0292 (0.0223)
Age squared	-0.000280*** (9.47e-05)	0.000283 (0.000217)
Female	0.0302 (0.0406)	0.00582 (0.0924)
Black	-0.0624 (0.0428)	-0.175 (0.106)
Other race	-0.0295 (0.0831)	0.115 (0.318)
Married	-0.00294 (0.0461)	0.119 (0.108)
Average Membership in 2007 (logged)	0.125*** (0.0455)	0.167* (0.0883)
Net Assets (logged)	0.101*** (0.0227)	0.0819 (0.0560)
Clergy Staff Expense (per thousand \$)	-0.000343 (0.000392)	0.0119 (0.0228)
Lay Staff Expense Percentage (logged)	0.0462** (0.0204)	0.0402 (0.0421)
Competition	-0.000102 (0.000155)	-0.000638 (0.000558)
Urban	0.115** (0.0473)	0.0340 (0.116)
Suburban	0.0433 (0.0415)	-0.0771 (0.0920)
Average Worship Attendance 2007 (logged)	0.311*** (0.0452)	0.282*** (0.0981)
Program Expense (per thousand \$)	-0.00100*** (0.000338)	-0.00486 (0.0113)
Apportionments Paid (logged)	0.0307 (0.0203)	0.228*** (0.0610)
Constant	7.767*** (0.413)	7.094*** (0.945)
Observations	413	155
R-squared	0.82	0.63

Standard errors in parentheses

\*\*\* p&lt;0.01, \*\* p&lt;0.05, \* p&lt;0.1

Table B.7 Interaction Terms Model Results

VARIABLE	Clergy Compensation Model
	Clergy Salary
Tenure	-0.0365** (0.0182)
Tenure squared	0.00172** (0.000795)
Years of Service	0.0291* (0.0152)
Years of Service squared	-0.000901* (0.000503)
Age	-0.0292* (0.0168)
Age squared	0.000283* (0.000163)
Female	0.00582 (0.0695)
Black	-0.175** (0.0795)
Other race	0.115 (0.239)
Married	0.119 (0.0813)
Average Membership in 2007 (logged)	0.167** (0.0665)
Net Assets (logged)	0.0819* (0.0422)
Clergy Staff Expense (per thousand \$)	0.0119 (0.0171)
Lay Staff Expense Percentage (logged)	0.0402 (0.0316)
Competition	-0.000638 (0.000420)
Urban	0.0340 (0.0870)
Suburban	-0.0771 (0.0692)
Average Worship Attendance 2007 (logged)	0.282*** (0.0739)
Program Expense (per thousand \$)	-0.00486 (0.00854)
Apportionments Paid (logged)	0.228*** (0.0459)

Table B.7 Interaction Terms Model Results (continued)

VARIABLE X Ordained	Clergy Compensation Model Clergy Salary
Tenure	0.0652*** (0.0221)
Tenure squared	-0.00293*** (0.00109)
Years of Service	-0.0171 (0.0165)
Years of Service squared	0.000712 (0.000521)
Age	0.0518** (0.0204)
Age squared	-0.000562*** (0.000197)
Female	0.0244 (0.0840)
Black	0.112 (0.0938)
Other race	-0.144 (0.258)
Married	-0.122 (0.0974)
Average Membership in 2007 (logged)	-0.0419 (0.0850)
Net Assets (logged)	0.0194 (0.0498)
Clergy Staff Expense (per thousand \$)	-0.0122 (0.0171)
Lay Staff Expense Percentage (logged)	0.00597 (0.0396)
Competition	0.000536 (0.000457)
Urban	0.0808 (0.103)
Suburban	0.120 (0.0844)
Average Worship Attendance 2007 (logged)	0.0283 (0.0906)
Program Expense (per thousand \$)	0.00386 (0.00855)
Apportionments Paid (logged)	-0.197*** (0.0516)
Constant	7.094*** (0.711)
Observations	568
R-squared	0.858

Standard errors in parentheses  
 \*\*\* p<0.01, \*\* p<0.05, \* p<0.1



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